

RediShred Capital Corp.

Consolidated Interim Financial Statements

June 30, 2017 and 2016

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

August 25, 2017

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 June 30, 2017.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at June 30, 2017 and December 31, 2016

(expressed in Canadian dollars)

| | June 30, 2017 \$ | December 31, 2016 \$ |
|--|---------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash | 1,569,592 | 1,011,443 |
| Cash attributable to the Advertising Fund (note 3) | 258,692 | 261,304 |
| Income taxes receivable | 20,779 | 21,457 |
| Trade receivables | 1,130,804 | 913,696 |
| Prepaid expenses | 188,557 | 159,586 |
| Notes receivable from franchisees | 66,290 | 89,429 |
| | <u>3,234,714</u> | <u>2,456,915</u> |
| Non-current assets | | |
| Notes receivable from franchisees | 82,306 | 109,861 |
| Equipment (note 4) | 4,337,017 | 3,222,547 |
| Intangible assets (note 5) | 2,367,895 | 2,374,679 |
| Goodwill (note 6) | 1,779,291 | 1,837,398 |
| | <u>8,566,509</u> | <u>7,544,485</u> |
| Total assets | <u>11,801,223</u> | <u>10,001,400</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 885,376 | 1,128,913 |
| Current portion of notes payable (note 7) | 125,464 | 33,180 |
| Current portion of long-term debt (note 8) | 1,135,938 | 5,619,461 |
| Current portion of contingent consideration | 130,000 | 33,568 |
| | <u>2,276,778</u> | <u>6,815,122</u> |
| Non-current liabilities | | |
| Long-term debt (note 8) | 3,195,665 | 2,050,369 |
| Long-term notes payable (note 7) | 90,642 | 58,171 |
| Contingent consideration | 29,900 | – |
| Deferred tax liability | 181,686 | 207,044 |
| Convertible debentures (note 10) | – | 352,176 |
| | <u>3,497,893</u> | <u>2,667,760</u> |
| Total liabilities | <u>5,774,671</u> | <u>9,482,882</u> |
| Shareholders' Equity | | |
| Capital stock (note 9) | 13,891,138 | 8,590,995 |
| Contributed surplus | 696,334 | 512,518 |
| Accumulated other comprehensive loss | (750,934) | (496,250) |
| Deficit | (7,809,986) | (8,088,745) |
| | <u>6,026,552</u> | <u>518,518</u> |
| Total liabilities and shareholders' equity | <u>11,801,223</u> | <u>10,001,400</u> |
| Commitments (note 14) | | |

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income (Loss)

For the three and six months ended June 30, 2017 and 2016

(expressed in Canadian dollars)

| | <i>For the 3 months ended June 30</i> | | <i>For the 6 months ended June 30</i> | |
|---|---------------------------------------|-------------------|---------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Revenue (note 11) | 3,101,767 | 2,475,518 | 5,736,218 | 4,823,670 |
| Corporate operating locations expenses (note 12) | (1,612,190) | (1,154,551) | (2,812,524) | (2,350,061) |
| Depreciation – tangible assets | (264,391) | (138,883) | (452,219) | (283,040) |
| Selling, general and administrative expenses (note 9(d) and 13) | (790,985) | (589,699) | (1,417,622) | (1,103,649) |
| Operating income | 434,201 | 592,385 | 1,053,853 | 1,086,920 |
| Amortization – intangible assets | (258,575) | (223,908) | (489,499) | (457,994) |
| Foreign exchange (loss) | (152,236) | (28,550) | (32,519) | (172,807) |
| Interest expense | (86,049) | (172,490) | (206,333) | (347,086) |
| Interest income | 2,019 | 2,044 | 4,330 | 4,600 |
| (Loss) Income before income taxes | (60,640) | 169,481 | 329,832 | 113,633 |
| Income tax (expense) recovery | (47,471) | 18,786 | (51,073) | 2,052 |
| Net (loss) income for the period | (108,111) | 188,267 | 278,759 | 115,685 |
| Foreign currency translation (loss) | (16,727) | (9,944) | (254,684) | (329,806) |
| Comprehensive (loss) income for the period | (124,838) | 178,323 | 24,075 | (214,121) |
| Net (loss) income per share | | | | |
| Basic and diluted | (0.00) | 0.01 | 0.01 | (0.00) |
| Weighted average number of common shares outstanding – basic | 46,990,169 | 28,884,658 | 44,651,602 | 28,884,658 |
| Weighted average number of common shares outstanding – diluted | 47,738,369 | 29,480,050 | 45,294,824 | 29,480,050 |

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2017 and 2016

(expressed in Canadian dollars)

| | Capital stock and warrants \$ (note 9) | 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 | – | – | – | 278,759 | 278,759 |
| Foreign currency translation (loss) | – | – | (254,684) | – | (254,684) |
| Comprehensive income for the period | – | – | – | – | 24,075 |
| Issue of shares (note 9) | 4,629,350 | (92,983) | – | – | 4,536,367 |
| Issue of warrants (note 9) | 670,793 | – | – | – | 670,793 |
| Stock-based compensation (note 9) | – | 276,799 | – | – | 276,799 |
| Balance – June 30, 2017 | 13,891,138 | 696,334 | (750,934) | (7,809,986) | 6,026,552 |
| Balance – January 1, 2016 | 8,585,808 | 427,575 | (220,738) | (8,262,633) | 530,012 |
| Net (loss) for the period | – | – | – | 115,685 | 115,685 |
| Foreign currency translation (loss) | – | – | (329,806) | – | (329,806) |
| Comprehensive (loss) for the period | – | – | – | – | (214,121) |
| Stock-based compensation | – | 3,936 | – | – | 3,936 |
| Balance – June 30, 2016 | 8,585,808 | 431,511 | (550,544) | (8,146,948) | 319,827 |

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2017 and 2016

(expressed in Canadian dollars)

| | <i>For the 3 months ended June 30</i> | | <i>For the 6 months ended June 30</i> | |
|--|---------------------------------------|----------------|---------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Cash provided by (used in) | \$ | \$ | \$ | \$ |
| Operating activities | | | | |
| Net (loss) income for the period | (108,109) | 188,267 | 278,759 | 115,685 |
| Items not affecting cash | | | | |
| Amortization of tangible and intangible assets | 529,084 | 360,950 | 947,833 | 722,779 |
| Stock-based compensation | 276,320 | 3,292 | 276,799 | 3,936 |
| Unrealized foreign currency loss | 160,606 | 50,471 | 155,643 | 93,111 |
| Income tax recovery | (9,344) | (19,152) | (27,838) | (37,187) |
| | 848,557 | 583,828 | 1,631,196 | 898,324 |
| Net change in non-cash working capital balances | | | | |
| (Increase) in trade receivables | (71,452) | (67,179) | (212,848) | (33,031) |
| Decrease (increase) in prepaid expenses | 39,455 | (39,360) | (32,283) | (134,911) |
| Increase in deferred revenue | – | 58,050 | – | 58,050 |
| Decrease in accounts payable and accrued liabilities | (384,711) | (265,909) | (210,207) | (161,455) |
| Net cash provided by operations | 431,849 | 269,430 | 1,175,858 | 626,977 |
| Financing activities | | | | |
| Borrowings from long-term debt | 622,027 | – | 691,823 | – |
| Repayment of long-term debt | (168,562) | (147,020) | (4,112,701) | (692,631) |
| Issuance of capital stock (net of fees) | 66,501 | – | 4,854,966 | – |
| Repayment of notes receivable from franchisees | 22,708 | (22,366) | 45,380 | 12,277 |
| Repayment of notes payable | (24,013) | (10,197) | (34,840) | (20,632) |
| | 518,661 | (179,583) | 1,444,628 | (700,986) |
| Investing activities | | | | |
| Acquisition of Northern Virginia | (21,692) | – | (1,105,956) | – |
| Cash held by advertising fund | (145,025) | 25,015 | (5,829) | 8,541 |
| Purchase of capital assets | (716,605) | (81,721) | (1,146,021) | (163,994) |
| Proceeds from disposal of capital assets | – | – | 278,098 | – |
| | (883,322) | (56,706) | (1,979,708) | (155,453) |
| Effect of foreign exchange rate changes on cash | (80,390) | (6,945) | (82,629) | (36,409) |
| Net change in cash for the period | (13,202) | 26,196 | 558,149 | (265,871) |
| Cash – Beginning of period | 1,582,794 | 556,130 | 1,011,443 | 848,197 |
| Cash – End of period | 1,569,592 | 582,326 | 1,569,592 | 582,326 |

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(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 6559 Mississauga Road, 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 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, 2016, 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 June 30, 2017. 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, 2016 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 and six months ended June 30, 2017 were authorized for issue in accordance with a resolution of the Directors on August 25, 2017.

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 June 30, 2017, the cash attributable to the Ad Fund amounted to \$258,692 (December 31, 2016 - \$261,304)

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

4 Equipment

| Cost | Computer | Furniture & | Bins & | Shredding | Shredding | Vehicles | Total |
|----------------------------|----------------|----------------|----------------|------------------|------------------|----------------|------------------|
| | equipment | fixtures | shredding | vehicles - | vehicles - | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| As at January 1, 2016 | 153,878 | 92,577 | 497,529 | 1,133,754 | 2,886,470 | 56,887 | 4,821,095 |
| Additions | 49,224 | 1,938 | 82,242 | 333,702 | 720,300 | 16,990 | 1,204,396 |
| Sale of assets | - | - | - | (186,415) | (463,366) | - | (649,781) |
| Fully depreciated | 7,372 | 11,199 | (4,041) | (51,454) | (164,091) | 6,092 | (194,923) |
| Foreign exchange | (4,019) | 1,221 | (14,967) | (35,368) | (88,679) | (1,516) | (143,328) |
| As at December 31, 2016 | 206,455 | 106,935 | 560,763 | 1,194,219 | 2,890,634 | 78,453 | 5,037,459 |
| Additions | 27,493 | 20,172 | 48,641 | 305,393 | 718,468 | 25,854 | 1,146,021 |
| Acquisition | 4,979 | 3,250 | 81,459 | 178,042 | 485,310 | 13,183 | 766,223 |
| Disposals | - | - | - | (91,276) | (232,037) | - | (323,313) |
| Foreign exchange | (2,823) | (682) | (18,090) | (41,251) | (97,348) | (2,107) | (162,301) |
| As at June 30, 2017 | 236,104 | 129,675 | 672,773 | 1,545,127 | 3,765,027 | 115,383 | 6,464,089 |
| Accumulated depreciation | Computer | Furniture & | Bins & | Shredding | Shredding | Vehicles | Total |
| | equipment | fixtures | shredding | vehicles - | vehicles - | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| As at January 1, 2016 | 140,994 | 74,358 | 267,800 | 301,110 | 837,503 | 44,138 | 1,665,903 |
| Depreciation | 23,617 | 7,204 | 95,511 | 139,226 | 343,441 | 20,202 | 629,201 |
| Sale of assets | (485) | - | - | (67,413) | (167,972) | - | (235,870) |
| Fully depreciated | 7,372 | 11,199 | (4,041) | (51,454) | (164,091) | 6,092 | (194,923) |
| Foreign exchange | (1,370) | (728) | (8,112) | (10,519) | (27,535) | (1,135) | (49,399) |
| As at December 31, 2016 | 170,128 | 92,033 | 351,158 | 310,950 | 821,346 | 69,297 | 1,814,912 |
| Depreciation | 15,145 | 4,130 | 44,695 | 109,036 | 263,086 | 12,086 | 448,178 |
| Disposals | (64) | - | - | (22,740) | (53,032) | - | (75,836) |
| Foreign exchange | (1,807) | (433) | (11,424) | (13,161) | (31,541) | (1,816) | (60,182) |
| As at June 30, 2017 | 183,402 | 95,730 | 384,429 | 384,085 | 999,859 | 79,567 | 2,127,072 |
| Net book value | | | | | | | |
| As at December 31, 2016 | 36,327 | 14,902 | 209,605 | 883,269 | 2,069,288 | 9,156 | 3,222,547 |
| As at June 30, 2017 | 52,702 | 33,945 | 288,344 | 1,161,042 | 2,765,168 | 35,816 | 4,337,017 |

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 June 30, 2017 and December 31, 2016.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

5 Intangible assets

| Cost | Trademarks and intellectual property | | | | | Total |
|---|--------------------------------------|-----------------|-----------------------|------------------------------|------------------------|------------------|
| | Franchise agreements | Proshred system | intellectual property | Re-acquired franchise rights | Customer relationships | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| As at January 1, 2016 | 3,220,443 | 978,000 | 1,672,500 | 1,312,031 | 2,810,666 | 9,993,640 |
| Additions | – | – | – | – | 11,291 | 11,291 |
| Foreign exchange | (100,804) | – | – | (39,152) | (83,877) | (223,833) |
| As at December 31, 2016 | 3,119,639 | 978,000 | 1,672,500 | 1,272,879 | 2,738,080 | 9,781,098 |
| Acquisition | – | – | – | 44,642 | 520,000 | 564,642 |
| Removal of original franchise agreement | (226,934) | – | – | – | – | (226,934) |
| Foreign exchange | (151,506) | – | – | (40,479) | (87,075) | (279,039) |
| As at June 30, 2017 | 2,741,199 | 978,000 | 1,672,500 | 1,277,042 | 3,171,005 | 9,839,767 |

| Accumulated amortization | Trademarks and intellectual property | | | | | Total |
|---|--------------------------------------|-----------------|-----------------------|------------------------------|------------------------|------------------|
| | Franchise agreements | Proshred system | intellectual property | Re-acquired franchise rights | Customer relationships | |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| As at January 1, 2016 | 2,602,472 | 766,091 | 1,310,121 | 1,074,175 | 860,533 | 6,613,392 |
| Amortization | 262,503 | 97,800 | 167,244 | 132,156 | 273,420 | 933,123 |
| Foreign exchange | (82,363) | – | – | (32,054) | (25,679) | (140,096) |
| As at December 31, 2016 | 2,782,612 | 863,891 | 1,477,365 | 1,174,277 | 1,108,274 | 7,406,419 |
| Amortization | 129,895 | 48,900 | 83,613 | 48,660 | 147,747 | 458,815 |
| Removal of original franchise agreement | (203,227) | – | – | – | – | (203,227) |
| Foreign exchange | (130,568) | – | – | (24,344) | (35,244) | (190,156) |
| As at June 30, 2017 | 2,578,712 | 912,791 | 1,560,978 | 1,198,593 | 1,220,777 | 7,471,851 |

Net book value

| | | | | | | |
|----------------------------|----------------|---------------|----------------|---------------|------------------|------------------|
| As at December 31, 2016 | 337,027 | 114,109 | 195,135 | 98,602 | 1,629,806 | 2,374,679 |
| As at June 30, 2017 | 162,487 | 65,209 | 111,522 | 78,449 | 1,950,228 | 2,367,895 |

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2017 and December 31, 2016. 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill as at June 30, 2017 and December 31, 2016:

| | June 30, 2017 | December 31, 2016 |
|------------------------------|---------------|-------------------|
| | \$ | \$ |
| Opening balance | 1,837,398 | 1,893,914 |
| Foreign currency translation | (58,107) | (56,516) |
| Closing balance | 1,779,291 | 1,837,398 |

7 Notes payable

On December 31, 2015, the Company purchased the assets of Recordshred Inc. As a result of this transaction the Company entered into a 3 year promissory note in the amount of CAD\$130,000 (US\$100,000) with blended monthly payments of principal and interest of CAD\$3,896 (US\$2,997) maturing December 5, 2018. The note bears interest at 5% per annum.

On March 31, 2017, the Company purchased the Proshred Northern Virginia franchise. As a result of this transaction the Company entered into a 2 year non-interest bearing promissory note in the amount of CAD\$162,500 (US\$125,000) with monthly payments of CAD\$6,770 (US\$5,208) maturing April 1, 2019.

8 Long-term debt

As at June 30, 2017 and December 31, 2016 long-term debt is comprised of:

| | June 30, 2017 | December 31, 2016 |
|-------------------------------|---------------|-------------------|
| | \$ | \$ |
| Line of credit (i) | 1,973,757 | 4,973,848 |
| Truck loans (ii) | 1,957,299 | 1,559,056 |
| Finance lease liability (iii) | 397,080 | 478,295 |
| Related Party Term loans (iv) | 3,467 | 658,631 |
| Total long-term debt | 4,331,603 | 7,669,830 |
| Less: current portion | (1,135,938) | (5,619,461) |
| Total long-term debt | 3,195,665 | 2,050,369 |

(i) Line of Credit and Term Loan

The Company has a line of credit with a related party entity (see note 18) for a maximum amount of \$6.03 million. The line of credit is repayable on November 27, 2019, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

8 Long-term debt (continued)

(i) Line of Credit and Term Loan (continued)

Subsequent to quarter-end, on July 28, 2017, the Company secured senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

1. An operating demand loan of \$1 million bearing interest at BMO's 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 BMO's prime rate plus 2.0%.

The Company used \$2 million of the BMO term loan to repay in full the outstanding balance on the related party line of credit.

The Company also replaced the original related party line of credit facility with a new line of credit for a maximum amount of \$2 million for a five year term. The new line of credit bears interest at a fixed rate of 10% per annum.

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as of June 30, 2017:

| Origination | Initial amount | Payment ⁽¹⁾ | Interest per annum | Asset carrying value | Loan value | Maturity |
|-------------------|----------------|------------------------|--------------------|----------------------|-----------------------------|-------------------|
| August 3, 2012 | US\$125,556 | US\$2,545 | 8.00% | CAD\$128,957 | CAD\$6,554 US\$5,041 | August 3, 2017 |
| October 24, 2013 | US\$187,950 | US\$3,731 | 7.00% | CAD\$143,915 | CAD\$73,832 US\$56,794 | October 24, 2018 |
| June 23, 2015 | US\$229,039 | US\$4,520 | 6.75% | CAD\$238,951 | CAD\$190,714 US\$146,704 | June 23, 2020 |
| July 22, 2015 | US\$300,000 | US\$7,283 | 7.50% | CAD\$295,971 | CAD\$218,246 US\$167,882 | July 22, 2019 |
| December 22, 2015 | US\$80,000 | US\$2,480 | 7.50% | CAD\$7,200 | CAD\$54,730 US\$42,100 | December 5, 2018 |
| July 5, 2016 | US\$176,546 | US\$3,904 | 6.40% | CAD\$219,218 | CAD\$178,029 US\$136,945 | September 5, 2020 |
| September 5, 2016 | US\$381,572 | US\$7,392 | 5.95% | CAD\$578,813 | CAD\$423,854 US\$326,041 | August 5, 2021 |
| March 22, 2017 | US\$170,581 | US\$3,282 | 5.71% | CAD\$346,525 | CAD\$212,147 US\$163,190 | March 22, 2022 |
| May 3, 2017 | US\$230,956 | US\$4,465 | 5.99% | CAD\$311,069 | CAD\$296,036 US\$227,720 | May 5, 2022 |
| May 4, 2017 | US\$236,456 | US\$4,549 | 5.71% | CAD\$318,569 | CAD\$303,157 US\$233,069 | May 4, 2022 |

(1) Blended monthly payments of principal and interest.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

8 Long-term debt (continued)

iii) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as of June 30, 2017:

| 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\$137,734 | CAD\$88,965 US\$68,434 | US\$37,680 | December 20, 2018 |
| July 17, 2014 | US\$226,432 | US\$3,861 | 7.62% | CAD\$210,619 | CAD\$171,523 US\$131,941 | US\$50,610 | August 20, 2019 |
| December 22, 2015 | US\$170,000 | US\$4,364 | 6.75% | CAD\$122,122 | CAD\$136,592 US\$105,071 | US\$34,000 | January 5, 2019 |

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

Future minimum finance lease payments at June 30, 2017, stated in Canadian dollars, were as follows:

| | 2017 \$ | 2018 \$ | 2019 \$ | Total \$ |
|--------------------|------------|------------|------------|-------------|
| Lease payments | 82,041 | 210,173 | 145,136 | 437,350 |
| Finance charges | (13,648) | (22,250) | (4,372) | (40,270) |
| Net present values | 68,393 | 187,923 | 140,764 | 397,080 |

The future minimum lease payments have been translated at the closing rate at June 30, 2017 using an exchange rate of USD\$1.00 = CAD\$1.30.

iv) Related Party Term loans

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with related parties (refer to note 18):

- A 5 year loan agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. On January 23, 2017, the loan was converted into equity at a price of \$0.30 per Common Share;
- A 5 year loan agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. On January 23, 2017, the loan was converted into equity at a price of \$0.30 per Common Share;

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

8 Long-term debt (continued)

iv) *Related Party Term loans* (continued)

(c) A 4 year loan agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum. On January 23, 2017, the loan was converted into equity at a price of \$0.30 per Common Share; and

(d) A 4 year loan agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum. On July 28, 2017 this loan was extinguished.

9 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

On January 23, 2017, the Company closed its private placements and debt conversion, issuing 17,962,929 common shares.

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

| | Common stock | |
|----------------------------|--------------|------------|
| | Number | \$ |
| Balance, June 30, 2017 | 47,082,587 | 13,891,138 |
| Balance, December 31, 2016 | 28,939,658 | 8,590,995 |

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the six months ended June 30, 2017, was 44,651,602 (December 31, 2016 – 29,939,658). The diluted weighted average number of common shares outstanding for the six months ended June 30, 2017, was 45,294,824 (December 31, 2016 – 29,693,461).

d) Stock options

At June 30, 2017, the Company has 1,693,000 options outstanding (December 31, 2016 – 2,100,000) and a weighted average exercise price of \$0.33 (December 31, 2016 - \$0.19). In the first six months of 2017, 1,405,000 stock options were exercised (for the six months ended June 30, 2016 – nil). There were 718,000 stock options granted during the six months ended June 30, 2017 (for the six months ended June 30, 2016 – 25,000). For the six months ended June 30, 2017, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$276,799 (for the six months ended June 30, 2016 – \$3,936).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

9 Capital stock (continued)

e) Warrants

The Company issued 2,002,150 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.

10 Convertible debentures

On December 31, 2012, the Company issued \$375,000 convertible, unsecured subordinated, debentures. The debentures have a five-year term and a coupon of 7.5% interest per annum. Each \$1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of \$0.30 per share at any time prior to maturity. Conversion may occur at any time prior to the maturity date of December 31, 2017. The Company may, at its option, redeem the debentures, in whole or in part, at a redemption price equal to the principal amount plus accrued interest and unpaid interest. Interest of 7.5% per annum will be paid annually on the anniversary of the grant date. On January 23, 2017, the debentures were converted to 1,250,002 common shares.

11 Revenue

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

| | <i>For the 3 months ended June 30</i> | | <i>For the 6 months ended June 30</i> | |
|------------------------|---------------------------------------|------------------|---------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Royalties | 522,406 | 457,819 | 1,050,734 | 911,311 |
| Franchise fees | – | 171,836 | – | 171,836 |
| Shredding services | 2,147,460 | 1,588,125 | 3,897,451 | 3,230,640 |
| Sale of paper products | 431,901 | 254,568 | 788,033 | 504,077 |
| Total revenue | 3,101,767 | 2,475,518 | 5,736,218 | 4,823,670 |

12 Corporate operating locations expenses by nature

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

| | <i>For the 3 months ended June 30</i> | | <i>For the 6 months ended June 30</i> | |
|---|---|------------------|---|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Shredding vehicle and related expenses | 318,895 | 273,917 | 619,839 | 524,896 |
| Employee wages expense | 860,049 | 561,389 | 1,415,522 | 1,131,702 |
| Employee benefit expense | 129,599 | 97,919 | 245,769 | 216,175 |
| Office and administration expense | 303,647 | 221,326 | 531,394 | 477,288 |
| Total corporate operating expenses | 1,612,190 | 1,154,551 | 2,812,524 | 2,350,061 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

13 Selling, general and administrative expenses by nature

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

| | <i>For the 3 months ended June 30</i> | | <i>For the 6 months ended June 30</i> | |
|---|---|----------------|---|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Employee wages and benefits | 232,336 | 259,172 | 573,036 | 493,951 |
| Share-based compensation | 276,320 | 3,292 | 276,799 | 3,936 |
| Professional fees | 56,891 | 54,988 | 115,487 | 143,465 |
| Travel | 61,040 | 40,375 | 98,054 | 75,685 |
| Technology | 87,099 | 92,684 | 185,195 | 191,534 |
| Rent and office expense | 32,503 | 31,348 | 70,997 | 64,179 |
| Selling and development | 14,564 | 31,309 | 41,988 | 47,930 |
| Brokers fees | – | 39,461 | – | 39,461 |
| Amortization of deferred financing charges | – | 1,842 | – | 3,684 |
| Other | 30,232 | 35,228 | 56,066 | 39,824 |
| Total selling, general and administrative expenses | 790,985 | 589,699 | 1,417,622 | 1,103,649 |

Compensation of key management

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

| | <i>For the 3 months ended June 30</i> | | <i>For the 6 months ended June 30</i> | |
|--------------------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | \$ | \$ |
| Wages and benefits | 194,031 | 116,813 | 358,062 | 214,013 |
| Share-based compensation | 23,378 | 3,356 | 23,792 | 3,936 |
| Total | 217,409 | 120,169 | 381,854 | 217,949 |

For the three and six months ended June 30, 2017, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Corporate Development and Senior Vice President of Operations. For the three and six months ended June 30, 2016, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, and Senior Vice President of Operations.

14 Commitments

The Company has the following office lease commitments:

| | |
|---------------------------|----------------------------|
| Milwaukee, Wisconsin | Expires August 31, 2017 |
| New York, New York | Expires October 31, 2017 |
| Ft. Lauderdale, Florida | Expires December 31, 2017 |
| Albany, New York | Expires March 31, 2019 |
| North Virginia, Virginia | Expires August 31, 2019 |
| Syracuse, New York | Expires September 30, 2020 |
| Charlotte, North Carolina | Expires April 30, 2021 |
| Mississauga, Ontario | Expires September 30, 2023 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

14 Commitments (continued)

Certain contracts include renewal options for various periods of time. For the six months ended June 30, 2017, the Company incurred \$178,717 (six months ended June 30, 2016 - \$140,577) 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 | 285,588 |
| Between 1 and 5 years | 716,979 |
| Over 5 years | <u>35,978</u> |
| Total | <u>1,038,545</u> |

15 Financial instruments and fair values

The Company has financial assets that consist of: cash, 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 cash flow 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, and the line of credit facility has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 5.7% to 8.0% per annum. The loan in connection with the Charlotte purchase has a fixed interest rate of 9% 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.

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 June 30, 2017, 6 franchisees accounted for 64% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2016 - 6 franchises accounted for 65%). For the six months ended June 30, 2017, 3 franchisees accounted for 23% of the Company's revenues related to franchising and licensing (December 31, 2016 - 3 franchisees accounted for 23%). As of June 30, 2017, there were no accounts receivable outstanding over 90 days (December 31, 2016 - nil).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

15 Financial instruments and fair values (continued)

Credit risk (continued)

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At June 30, 2017, no customer accounted for more than 10% of the accounts receivable balance. For the six months ended June 30, 2017 and 2016, no customer accounted for more than 10% of the Company's revenues in this category. As of June 30, 2017, 6% of accounts receivable in this category were over 90 days (December 31, 2016 – 9%). As at June 30, 2017, the Company has recorded an allowance for credit losses of \$3,000 (December 31, 2016 - \$nil). 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 six months ended June 30, 2017, the Company recorded a foreign exchange loss of \$32,519 (during the six months ended June 30, 2016 – loss of \$172,807). Exchange rates utilized (USD to CDN):

| | | |
|----------------------------------|----------------------|--------------------------|
| As at, | June 30, 2017 | December 31, 2016 |
| | \$ | \$ |
| Close rate | 1.30 | 1.34 |
| For the six months ended, | June 30, 2017 | June 30, 2016 |
| | \$ | \$ |
| Average rate | 1.33 | 1.33 |

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has a deficit of \$7.8 million at June 30, 2017. 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 \$2,276,778 at June 30, 2017 (December 31, 2016 - \$6,815,122), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$3,234,714 at June 30, 2017 (December 31, 2016 - \$2,456,915) including a cash balance of \$1,569,592 (December 31, 2016 - \$1,011,443).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

15 Financial instruments and fair values (continued)

Liquidity risk (continued)

| Principal | Less than 3 months \$ | 3 months to 1 year \$ | 2 – 5 years \$ | Over 5 years \$ |
|--|--------------------------------------|--------------------------------------|-------------------------------|----------------------------|
| Accounts payable and accrued liabilities | 867,901 | – | – | – |
| Notes payable | 31,163 | 94,307 | 90,636 | – |
| Long-term debt | 175,601 | 1,015,547 | 3,140,455 | – |
| Contingent consideration | 97,500 | 32,500 | 29,900 | – |

| Interest | Less than 3 months \$ | 3 months to 1 year \$ | 2 – 5 years \$ | Over 5 years \$ |
|-----------------|--------------------------------------|--------------------------------------|-------------------------------|----------------------------|
| Notes payable | 839 | 1,697 | 463 | – |
| Long-term debt | 37,631 | 265,814 | 322,307 | – |

| Total principal and interest | Less than 3 months \$ | 3 months to 1 year \$ | 2 – 5 years \$ | Over 5 years \$ |
|--|--------------------------------------|--------------------------------------|-------------------------------|----------------------------|
| Accounts payable and accrued liabilities | 867,901 | – | – | – |
| Notes payable | 32,002 | 96,004 | 91,099 | – |
| Long-term debt | 213,232 | 1,281,361 | 3,462,762 | – |
| Contingent consideration | 97,500 | 32,500 | 29,900 | – |

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.

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 June 30, 2017, amounted to \$148,596 (December 31, 2016 - \$199,290) with fair value estimated to be \$147,923 (December 31, 2016 - \$171,138), respectively.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

16 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. Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

17 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

June 30, 2017

(expressed in Canadian dollars)

17 Segment reporting (continued)

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

| | Franchising and licensing | Corporate locations | Corporate Overhead | Total |
|---|--------------------------------------|--------------------------------|-------------------------------|----------------------|
| | June 30, 2017 | June 30, 2017 | June 30, 2017 | June 30, 2017 |
| | \$ | \$ | \$ | \$ |
| ASSETS | | | | |
| Current assets | | | | |
| Cash | 411,333 | 646,461 | 511,798 | 1,569,592 |
| Cash attributable to the Ad Fund | 258,692 | — | — | 258,692 |
| Trade receivables | 178,629 | 928,089 | 24,086 | 1,130,804 |
| Income tax receivable | 20,779 | — | — | 20,779 |
| Prepaid expenses | 17,696 | 97,869 | 72,992 | 188,557 |
| Notes receivable from franchisees | 66,290 | — | — | 66,290 |
| Total current assets | 953,419 | 1,672,419 | 608,876 | 3,234,714 |
| Non-current assets | | | | |
| Notes receivable from franchisees | 82,306 | — | — | 82,306 |
| Equipment | — | 4,305,741 | 31,276 | 4,337,017 |
| Intangible assets | 144,194 | 2,046,971 | 176,730 | 2,367,895 |
| Goodwill | — | 1,779,291 | — | 1,779,291 |
| Total assets | 1,179,919 | 9,804,422 | 816,882 | 11,801,223 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 365,514 | 221,303 | 298,559 | 885,376 |
| Current portion of contingent consideration | — | 130,000 | — | 130,000 |
| Current portion of notes payable | — | 125,464 | — | 125,464 |
| Current portion of long-term debt | — | 1,135,938 | — | 1,135,938 |
| Total current liabilities | 365,514 | 1,612,705 | 298,559 | 2,276,778 |
| Non-current liabilities | | | | |
| Long-term debt | — | 3,195,665 | — | 3,195,665 |
| Long-term note payable | — | 90,642 | — | 90,642 |
| Long-term contingent consideration | — | 29,900 | — | 29,900 |
| Deferred tax liability | 181,686 | — | — | 181,686 |
| Total liabilities | 547,200 | 4,928,912 | 298,559 | 5,774,671 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

17 Segment reporting (continued)

| | Franchising and licensing | Corporate locations | Corporate overhead | Total |
|---|------------------------------|------------------------|-----------------------|-------------------|
| | December 31, 2016 | December 31, 2016 | December 31, 2016 | December 31, 2016 |
| | \$ | \$ | \$ | \$ |
| ASSETS | | | | |
| Current assets | | | | |
| Cash | 290,689 | 646,141 | 74,613 | 1,011,443 |
| Cash attributable to the Ad Fund | 261,304 | — | — | 261,304 |
| Trade receivables | 155,607 | 712,978 | 45,111 | 913,696 |
| Income tax receivable | 21,457 | — | — | 21,457 |
| Prepaid expenses | 11,883 | 84,967 | 62,736 | 159,586 |
| Notes receivable from franchisees | 89,429 | — | — | 89,429 |
| Total current assets | 830,369 | 1,444,086 | 182,460 | 2,456,915 |
| Non-current assets | | | | |
| Notes receivable from franchisees | 109,861 | — | — | 109,861 |
| Equipment | — | 3,211,097 | 11,450 | 3,222,547 |
| Intangible assets | 337,016 | 1,728,410 | 309,253 | 2,374,679 |
| Goodwill | — | 1,837,398 | — | 1,837,398 |
| Total assets | 1,277,246 | 8,220,991 | 503,163 | 10,001,400 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 422,632 | 214,696 | 491,585 | 1,128,913 |
| Current portion of contingent consideration | — | 33,568 | — | 33,568 |
| Current portion of notes payable | — | 33,180 | — | 33,180 |
| Current portion of long-term debt | — | 5,619,461 | — | 5,619,461 |
| Total current liabilities | 422,632 | 5,900,905 | 491,585 | 6,815,122 |
| Non-current liabilities | | | | |
| Long-term debt | — | 2,050,369 | — | 2,050,369 |
| Note payable | — | 58,171 | — | 58,171 |
| Convertible debenture | — | — | 352,176 | 352,176 |
| Deferred tax liability | 207,044 | — | — | 207,044 |
| Total liabilities | 629,676 | 8,009,445 | 843,761 | 9,482,882 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

17 Segment reporting (continued)

Geographic information

| | June 30, 2017 | December 31, 2016 |
|-----------------------------------|---------------|-------------------|
| Canada | \$ | \$ |
| Tangible assets | 31,276 | 11,450 |
| Intangible assets | 176,731 | 309,253 |
| United States | | |
| Notes receivable from franchisees | 148,596 | 199,290 |
| Tangible assets | 4,305,741 | 3,211,097 |
| Intangible assets | 2,191,164 | 2,065,426 |
| Goodwill | 1,779,291 | 1,837,398 |
| Total | | |
| Notes receivable from franchisees | 148,596 | 199,290 |
| Tangible assets | 4,337,017 | 3,222,547 |
| Intangible assets | 2,367,895 | 2,374,679 |
| Goodwill | 1,779,291 | 1,837,398 |

Revenue

All revenues were attributed to the United States, with the exception of license fees, which were attributed to the Middle East.

| For the three months ended, | June 30, 2017 | June 30, 2016 |
|-------------------------------------|----------------------|----------------------|
| | \$ | \$ |
| United States | | |
| Royalties | 522,406 | 457,819 |
| Franchise fees | — | 171,836 |
| Shredding services | 2,147,460 | 1,588,125 |
| Sale of paper and recycled products | 431,901 | 254,568 |
| Middle East | | |
| License fees | — | 3,170 |
| For the six months ended, | June 30, 2017 | June 30, 2016 |
| | \$ | \$ |
| United States | | |
| Royalties | 1,050,734 | 911,311 |
| Franchise fees | — | 171,836 |
| Shredding services | 3,897,451 | 3,230,640 |
| Sale of paper and recycled products | 788,033 | 504,077 |
| Middle East | | |
| License fees | — | 5,806 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

17 Segment reporting (continued)

Net income by operating segment

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

| | For the three months ended June 30, 2017 | | | |
|-------------------------------------|--|------------------------|-----------------------|-------------|
| | Franchising and licensing | Corporate locations | Corporate overhead | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | 522,406 | 2,579,361 | – | 3,101,767 |
| Direct costs | – | (1,612,190) | – | (1,612,190) |
| Depreciation | – | (261,624) | (2,767) | (264,391) |
| Selling, general and administrative | (279,167) | (217,295) | (294,523) | (790,985) |
| Operating income (loss) | 243,239 | 488,252 | (297,290) | 434,201 |
| Amortization | (150,436) | (108,139) | – | (258,575) |
| Foreign exchange loss | – | – | (152,236) | (152,236) |
| Interest expense | – | (86,049) | – | (86,049) |
| Interest income | 2,019 | – | – | 2,019 |
| Income tax expense | (25,546) | (21,925) | – | (47,471) |
| Net income (loss) | 69,276 | 272,139 | (449,526) | (108,111) |

| | For the three months ended June 30, 2016 | | | |
|-------------------------------------|--|------------------------|-----------------------|-------------|
| | Franchising and licensing | Corporate locations | Corporate overhead | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | 632,825 | 1,842,693 | – | 2,475,518 |
| Direct costs | – | (1,154,551) | – | (1,154,551) |
| Depreciation | – | (138,883) | – | (138,883) |
| Selling, general and administrative | (266,413) | (154,438) | (168,848) | (589,699) |
| Operating income (loss) | 366,412 | 394,821 | (168,848) | 592,385 |
| Amortization | (147,313) | (76,595) | – | (223,908) |
| Foreign exchange loss | – | – | (28,550) | (28,550) |
| Interest expense | – | (164,270) | (8,220) | (172,490) |
| Interest income | 2,044 | – | – | 2,044 |
| Income tax recovery | 18,786 | – | – | 18,786 |
| Net income (loss) | 239,929 | 153,956 | (205,618) | 188,267 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

17 Segment reporting (continued)

Net income by operating segment (continued)

| | For the six months ended June 30, 2017 | | | |
|-------------------------------------|--|------------------------|-----------------------|-------------|
| | Franchising and licensing | Corporate locations | Corporate overhead | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | 1,050,734 | 4,685,484 | – | 5,736,218 |
| Direct costs | – | (2,812,524) | – | (2,812,524) |
| Depreciation | – | (446,905) | (5,314) | (452,219) |
| Selling, general and administrative | (559,893) | (503,322) | (354,407) | (1,417,622) |
| Operating income (loss) | 490,841 | 922,733 | (359,721) | 1,053,853 |
| Amortization | (252,038) | (237,461) | – | (489,499) |
| Foreign exchange loss | – | – | (32,519) | (32,519) |
| Interest expense | – | (206,333) | – | (206,333) |
| Interest income | 4,330 | – | – | 4,330 |
| Income tax expense | (23,073) | (28,000) | – | (51,073) |
| Net income (loss) | 169,522 | 501,477 | (392,240) | 278,759 |

| | For the six months ended June 30, 2016 | | | |
|-------------------------------------|--|------------------------|-----------------------|-------------|
| | Franchising and licensing | Corporate locations | Corporate overhead | Total |
| | \$ | \$ | \$ | \$ |
| Revenue | 1,088,953 | 3,734,717 | – | 4,823,670 |
| Direct costs | – | (2,350,061) | – | (2,350,061) |
| Depreciation | – | (283,040) | – | (283,040) |
| Selling, general and administrative | (515,659) | (312,952) | (275,038) | (1,103,649) |
| Operating income (loss) | 573,294 | 788,664 | (275,038) | 1,086,920 |
| Amortization | (299,962) | (158,032) | – | (457,994) |
| Foreign exchange loss | – | – | (172,807) | (172,807) |
| Interest expense | – | (330,646) | (16,440) | (347,086) |
| Interest income | 4,600 | – | – | 4,600 |
| Income tax recovery | 2,052 | – | – | 2,052 |
| Net income (loss) | 279,984 | 299,986 | (464,285) | 115,685 |

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2017

(expressed in Canadian dollars)

18 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 \$533 due from this franchise at June 30, 2017 (December 31, 2016 - \$580). During the six months ended June 30, 2017, the Company earned royalties, service fees and interest income of \$65,459 (during the six months ended June 30, 2016 - \$53,031) from this franchise.

The Company has a line of credit facility with a related party entity, the Company's largest shareholder, for a maximum of \$6.03 million, repayable on November 27, 2019, bearing interest at a fixed rate of 10% per annum. (Refer to note 8). Subsequent to quarter-end, the Company used \$2 million of the BMO term loan (see note 19) to repay in full the outstanding balance on the related party line of credit.

The Company also replaced the original related party line of credit facility with a new line of credit for a maximum amount of \$2 million for a five year term. The new line of credit bears interest at a fixed rate of 10% per annum.

On December 31, 2012, the Company obtained equity and debt funding, directly or indirectly, from certain members of the Company's Board of Director's. The Company issued \$375,000 convertible, unsecured subordinated, debentures. The debentures have a five year term and a coupon of 7.5% interest per annum payable annually. The debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case the deferred interest payment will accrue additional interest at 7.5% per annum. Each \$1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of \$0.30 per share. On January 23, 2017, the convertible debentures were converted to common shares. (Refer to note 10).

Included in selling, general and administrative expenses for the six months ended June 30, 2017 are insurance premium amounts of \$15,103 (for the six months ended June 30, 2016 - \$4,411) paid to an insurance brokerage firm managed by a Director of the Company.

In order to finance the acquisition of the Charlotte location, the Company obtained four loans from certain members of the Company's Board of Director's. On January 23, 2017, the Company converted three of the loans into equity at a price of \$0.30 per common share. The remaining loan was extinguished on July 28, 2017. (Refer to note 8).

19 Subsequent events

On July 28, 2017, the Company secured up to \$4 million of senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

1. An operating demand loan of \$1 million bearing interest at BMO's 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 BMO's prime rate plus 2.0%.

The Company used \$2 million of the BMO term loan to repay in full the outstanding balance on the related party line of credit.

The Company also replaced the original related party line of credit facility with a new line of credit for a maximum amount of \$2 million for a five year term. The new line of credit bears interest at a fixed rate of 10% per annum.