

# **RediShred Capital Corp.**

Consolidated Interim Financial Statements  
**June 30, 2019 and 2018 Restated<sup>(1)</sup>**  
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

1. 2018 restatement due to the adoption of IFRS 15.

**August 22, 2019**

**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, 2019.**

# RediShred Capital Corp.

## Consolidated Statements of Financial Position

As at June 30, 2019 and December 31, 2018

(expressed in Canadian dollars)

	June 30, 2019 \$	December 31, 2018 (see note 2) \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,209,294	8,830,669
Cash attributable to the Advertising Fund (note 3)	231,641	215,709
Trade and other receivables (note 4)	1,891,428	1,461,562
Prepaid expenses	404,239	223,196
Notes receivable from franchisees (note 5)	109,777	47,496
<b>Total current assets</b>	<b>8,846,379</b>	<b>10,778,632</b>
<b>Non-current assets</b>		
Notes receivable from franchisees (note 5)	332,496	42,450
Tangible assets (note 6)	10,269,654	5,835,968
Intangible assets (note 7)	9,320,627	5,185,990
Goodwill (notes 8)	7,285,265	4,812,448
Deferred tax asset (note 17)	1,199,734	1,287,473
<b>Total non-current assets</b>	<b>28,407,776</b>	<b>17,164,329</b>
<b>Total assets</b>	<b>37,254,155</b>	<b>27,942,961</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,179,685	1,411,280
Current income taxes payable	–	53,543
Deferred revenue	224,192	236,821
Current portion of long-term debt (note 11)	2,198,695	1,253,723
Notes payable (note 9)	394,479	281,813
Contingent consideration (note 10)	1,329,016	253,180
Lease liabilities (note 12)	592,476	–
<b>Total current liabilities</b>	<b>5,918,543</b>	<b>3,490,360</b>
<b>Non-current liabilities</b>		
Long-term debt (note 11)	8,558,745	3,184,768
Deferred revenue	301,149	428,464
Notes payable (note 9)	420,313	476,397
Contingent consideration (note 10)	281,107	415,437
Lease liabilities (note 12)	1,326,214	–
<b>Total non-current liabilities</b>	<b>10,887,528</b>	<b>4,505,066</b>
<b>Total liabilities</b>	<b>16,806,071</b>	<b>7,995,426</b>
<b>Shareholders' equity</b>		
Capital stock (note 13)	24,961,090	24,961,090
Contributed surplus	992,166	890,757
Accumulated foreign currency translation loss	(715,486)	(649,893)
Deficit	(4,789,686)	(5,254,419)
<b>Total liabilities and shareholders' equity</b>	<b>37,254,155</b>	<b>27,942,961</b>

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

## RediShred Capital Corp.

### Consolidated Statements of Comprehensive (Loss) Income

For the three and six months ended June 30, 2019 and 2018

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2019</b> \$	<b>2018</b> (restated – see note 2) \$	<b>2019</b> \$	<b>2018</b> (restated – see note 2) \$
Revenue (note 14)	5,569,843	3,583,987	10,772,649	6,738,279
Corporate operating locations expenses (note 15)	(3,129,580)	(1,745,111)	(5,913,855)	(3,228,917)
Selling, general and administrative expenses (note 16)	(749,288)	(882,705)	(1,548,078)	(1,754,433)
<b>Income before depreciation</b>	1,690,975	956,171	3,310,716	1,754,929
Depreciation – tangible assets	(656,563)	(272,585)	(1,243,999)	(520,096)
<b>Operating income</b>	1,034,412	683,586	2,066,717	1,234,833
Interest expense	(149,820)	(66,080)	(272,115)	(131,540)
Interest income	4,618	1,029	12,911	2,221
<b>Income before the following</b>	889,210	618,535	1,807,513	1,105,514
Amortization – intangible assets	(313,302)	(95,367)	(561,751)	(256,090)
(Loss) gain on sale of assets (note 6)	(38,237)	–	93,017	–
Transaction recovery	–	17,840	–	17,840
Foreign exchange (loss) gain	(507,927)	91,295	(740,058)	243,881
<b>(Loss) income before income taxes</b>	29,744	632,303	598,721	1,111,145
Income tax (expense) recovery (note 17)	(110,323)	87,575	(133,988)	109,334
<b>Net (loss) income for the period</b>	(80,579)	719,878	464,733	1,220,479
Foreign currency translation loss	(29,803)	(1,175)	(65,593)	(3,707)
<b>Comprehensive (loss) income for the period</b>	(110,382)	718,703	399,140	1,216,772
<b>Net (loss) income per share</b>				
Basic	(0.001)	0.015	0.007	0.026
Diluted	(0.001)	0.015	0.007	0.025
<b>Weighted average number of common shares outstanding – basic</b>	66,561,105	47,527,587	66,559,675	47,519,393
<b>Weighted average number of common shares outstanding – diluted</b>	68,580,341	48,768,214	68,364,872	48,656,570

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, 2019 and for the twelve months ended December 31, 2018

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 13)	Contributed surplus \$	Accumulated foreign currency translation loss \$	Deficit \$	Total shareholders' equity \$
<b>Balance – January 1, 2018</b>	14,062,379	647,283	(698,352)	(7,966,897)	6,044,413
Net income for the year	–	–	–	2,712,478	2,712,478
Foreign currency translation income	–	–	48,459	–	<u>48,459</u>
Comprehensive income for the year					2,760,937
Issue of shares (note 13)	10,898,711	(4,664)	–	–	10,894,047
Stock-based compensation (note 13)	–	248,138	–	–	<u>248,138</u>
<b>Balance – December 31, 2018</b>	<b>24,961,090</b>	<b>890,757</b>	<b>(649,893)</b>	<b>(5,254,419)</b>	<b>19,947,535</b>
Net income for the period	–	–	–	464,733	464,733
Foreign currency translation loss	–	–	(65,593)	–	<u>(65,593)</u>
Comprehensive income for the period					399,140
Issue of shares (note 13)	–	1,507	–	–	1,507
Stock-based compensation (note 13)	–	99,902	–	–	<u>99,902</u>
<b>Balance – June 30, 2019</b>	<b>24,961,090</b>	<b>992,166</b>	<b>(715,486)</b>	<b>(4,789,686)</b>	<b>20,448,084</b>

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, 2019 and 2018

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2019</b> \$	<b>2018</b> (restated) \$	<b>2019</b> \$	<b>2018</b> (restated) \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(80,579)	719,878	463,733	1,220,479
Items not affecting cash				
Amortization of tangible and intangible assets	969,865	367,952	1,805,750	776,186
Stock-based compensation	59,881	69,259	99,902	210,011
Unrealized foreign currency loss (gain)	307,641	50,767	549,806	(232,507)
(Loss) gain on sale of assets	(38,237)	–	93,017	–
Transaction recovery	–	(17,840)	–	(17,840)
Income tax recovery (expense)	54,911	(162,420)	87,324	(245,774)
	<u>1,273,482</u>	<u>1,029,261</u>	<u>3,099,532</u>	<u>1,710,555</u>
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	251,356	125,385	(227,035)	(82,959)
(Increase) decrease in prepaid expenses	(50,073)	70,260	(189,923)	(35,967)
(Decrease) in accounts payable and accrued liabilities	(133,021)	(171,444)	(200,994)	(56,411)
(Decrease) in income taxes payable	–	(359)	(120,052)	(43,981)
(Decrease) in deferred revenue	(57,758)	(56,466)	(115,516)	(111,173)
	<u>1,283,986</u>	<u>996,637</u>	<u>2,246,012</u>	<u>1,380,064</u>
<b>Financing activities</b>				
Borrowings from long-term debt	6,793,933	290,735	7,377,877	290,735
Repayment of long-term debt	(615,004)	(274,412)	(922,481)	(533,923)
Issuance of capital stock (net of fees)	–	–	1,350	2,500
Payment of contingent considerations	(253,686)	(13,514)	(328,375)	(22,332)
Repayment of notes receivable from franchisees	39,356	38,828	47,223	60,185
Payment of notes payable	(108,157)	(34,605)	(208,258)	(65,799)
New lease liabilities	257,074	–	313,847	–
Payment of lease liabilities	(144,457)	–	(280,451)	–
	<u>5,969,059</u>	<u>7,031</u>	<u>6,000,732</u>	<u>(268,634)</u>
<b>Investing activities</b>				
Acquisitions	–	(1,206,266)	(8,760,643)	(1,206,266)
Cash held by advertising fund	(47,016)	(22,684)	(24,815)	16,481
Purchase of tangible and intangible assets	(1,173,702)	(366,901)	(1,946,831)	(414,502)
Proceeds from sale of assets	131,000	–	131,000	–
Issuance of note receivable	–	–	(13,337)	–
	<u>(1,089,718)</u>	<u>(1,595,851)</u>	<u>(10,614,626)</u>	<u>(1,604,288)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>(63,982)</u>	<u>22,594</u>	<u>(253,493)</u>	<u>68,492</u>
<b>Net change in cash for the period</b>	<u>6,099,345</u>	<u>(570,610)</u>	<u>(2,621,375)</u>	<u>(425,618)</u>
<b>Cash – Beginning of period</b>	<u>109,949</u>	<u>2,390,525</u>	<u>8,830,669</u>	<u>2,245,533</u>
<b>Cash – End of period</b>	<u>6,209,294</u>	<u>1,819,915</u>	<u>6,209,294</u>	<u>1,819,915</u>

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

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### 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 two business models, (1) franchising in the United States, (2) via direct operation of shredding trucks and facilities in nine locations in the United States, as of June 30, 2019.

### 2 Significant Accounting Policies

#### ***Basis of Presentation***

These unaudited condensed consolidated interim 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, 2018, 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, 2019. 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, 2018 and have been consistently applied in the preparation of these consolidated financial statements except for the new accounting policy which have been adopted on January 1, 2019, as required. With the adoption of accounting standard, IFRS 15, *Revenue from Contracts with Customers*, for the year ended December 31, 2018, the Company has restated the comparative information in accordance with this standard.

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, 2019 were authorized for issue in accordance with a resolution of the Directors on August 20, 2019.

#### ***New Accounting Standards***

The Company adopted *IFRS 16 – Leases* effective January 1, 2019, which replaces IAS 17, *Leases*. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. As a result, the Company recognized an increase to both assets and liabilities on its Consolidated Statements of Finance Position as well as a decrease to operating costs, an increase to depreciation and amortization and an increase to finance costs.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

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### 2 Significant Accounting Policies (continued)

#### *New Accounting Standards* (continued)

The Company adopted IFRS 16 using the modified retrospective approach using practical expedients, as permitted, which do not require the restatement of prior period financial information.

For leases that were classified as operating leases under IAS 17, lease liabilities and right-of-use assets have been recognized. The right-of-use assets have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid rent related to that lease. The lease liabilities have been measured at the present value of the remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019.

At transition the Company applied the following practical expedients that were available:

- (i) A single discount rate to a portfolio of leases with similar characteristics;
- (ii) Excluded initial direct costs from measuring the right-of-use assets as at January 1, 2019;
- (iii) Used hindsight in determining the lease term where the contract contains purchase, extension or termination options;
- (iv) Relied upon our assessment of whether leases are onerous under the requirements of IAS 37, Provisions, contingent liabilities and contingent assets as at December 31, 2018 as an alternative to reviewing the right-of-use-assets for impairment; and
- (v) Expense lease payments for leases with a remaining term of less than one year at January 1, 2019.

The Company has applied one recognition exemption for lessees – leases of low-value assets.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 2 Significant Accounting Policies (continued)

#### *New Accounting Standards* (continued)

Below is the effect of the transition to IFRS 16 on the Company's Statement of Financial Position as at January 1, 2019.

	December 31, 2018	Effect of IFRS 16 transition	January 1, 2019
	\$	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8,830,669	—	8,830,669
Cash attributable to the Advertising Fund	215,709	—	215,709
Trade and other receivables	1,461,562	—	1,461,562
Prepaid expenses	223,196	—	223,196
Notes receivable from franchisees	47,496	—	47,496
<b>Total current assets</b>	<b>10,778,632</b>	<b>—</b>	<b>10,778,632</b>
<b>Non-current assets</b>			
Notes receivable from franchisees	42,450	—	42,450
Tangible assets	5,835,968	1,277,839	7,113,807
Intangible assets	5,185,990	—	5,185,990
Goodwill	4,812,448	—	4,812,448
Deferred tax asset	1,287,473	—	1,287,473
<b>Total non-current assets</b>	<b>17,164,329</b>	<b>1,277,839</b>	<b>18,442,168</b>
<b>Total assets</b>	<b>27,942,961</b>	<b>1,277,839</b>	<b>29,220,800</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	1,411,280	—	1,411,280
Deferred revenue	236,821	—	236,821
Current income taxes payable	53,543	—	53,543
Current portion of long-term debt	1,253,723	—	1,253,723
Notes payable	281,813	—	281,813
Contingent consideration	253,180	—	253,180
Lease liabilities	—	397,371	397,371
<b>Total current liabilities</b>	<b>3,490,360</b>	<b>397,371</b>	<b>3,887,731</b>
<b>Non-current liabilities</b>			
Long-term debt	3,184,768	—	3,184,768
Deferred revenue	428,464	—	428,464
Notes payable	476,397	—	476,397
Contingent consideration	415,437	—	415,437
Lease liabilities	—	880,468	880,468
<b>Total non-current liabilities</b>	<b>4,505,066</b>	<b>880,468</b>	<b>5,385,534</b>
<b>Total liabilities</b>	<b>7,995,426</b>	<b>1,277,839</b>	<b>9,273,265</b>
<b>Shareholders' equity</b>			
Capital stock	24,961,090	—	24,961,090
Contributed surplus	890,757	—	890,757
Accumulated foreign currency translation loss	(649,893)	—	(649,893)
Deficit	(5,254,419)	—	(5,254,419)
<b>Total liabilities and shareholders' equity</b>	<b>27,942,961</b>	<b>1,277,839</b>	<b>29,220,800</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 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. The funds are also used for initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Ad Fund contributions are required to be made from both franchised and Company owned and operated locations and are based on the annual level of revenue from each location. The Ad Fund contributions and expenses from the Company owned locations have been eliminated on consolidation.

The Ad Fund related revenue and expenses as well as cash balance as at June 30, 2019 and December 31, 2018 are as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	\$	\$	\$	\$
Ad Fund contributions	73,447	42,075	143,804	125,185
Ad Fund expenses	(42,494)	(68,120)	(155,441)	(187,073)
Ad Fund net income (loss)	<u>30,953</u>	<u>(26,045)</u>	<u>(11,637)</u>	<u>(61,888)</u>

<b>As at,</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Cash attributable to the Ad Fund	231,641	215,709

### 4 Trade and other receivables

Trade receivables include receivables from franchisees and receivables from shredding and recycling customers. Other receivables include receivables related to Harmonized sales tax (“HST”) refunds and receivables related to an insurance claim. The net trade and other receivables as at June 30, 2019 and December 31, 2018 are as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Trade receivables	1,755,071	1,395,888
Other receivables	138,704	68,081
Less: Allowance for doubtful accounts	(2,347)	(2,407)
Trade receivables – net	<u>1,891,428</u>	<u>1,461,562</u>

### 5 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees and from the sale of customer assets to franchisees when the customer assets are located in a franchisees territory. All notes receivable are guaranteed by the respective owners of the franchises. The notes receivable bear interest rates ranging from 4.25% to 6.00% per annum with monthly blended payments of principal and interest ranging from USD\$595 to USD\$5,506. The payments on the notes commenced between dates ranging from January 1, 2014 to March 1, 2019 and mature between dates ranging from October 1, 2019 to February 1, 2024.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 5 Notes receivable from franchisees (continued)

The notes receivable as at June 30, 2019 and December 31, 2018 are as follows:

	June 30, 2019	December 31, 2018
	\$	\$
Opening balance	89,946	104,226
Add: new notes	399,550	81,828
Less: repayments	(47,223)	(96,108)
Closing balance	442,273	89,946

### 6 Tangible assets

	June 30, 2019			December 31, 2018		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Computer equipment	312,509	(268,058)	44,451	299,128	(256,894)	42,234
Furniture & fixtures	201,274	(134,954)	66,320	166,361	(124,166)	42,195
Bins & shredding containers	1,393,207	(655,406)	737,801	1,048,222	(586,002)	462,220
Shredding vehicles - chassis	3,423,911	(1,049,680)	2,374,231	2,491,987	(851,143)	1,640,844
Shredding vehicles - box	7,331,445	(2,485,680)	4,845,765	5,696,153	(2,080,371)	3,615,782
Vehicles	171,048	(128,349)	42,699	160,486	(127,793)	32,693
Baling equipment	281,126	(12,447)	268,679	-	-	-
Right of use assets	2,199,142	(309,434)	1,889,708	-	-	-
<b>Total tangible assets</b>	<b>15,313,662</b>	<b>(5,044,008)</b>	<b>10,269,654</b>	<b>9,862,337</b>	<b>(4,026,369)</b>	<b>5,835,968</b>

	December 31, 2018	January 1, 2019					June 30, 2019	
	Net carrying value	Adoption of IFRS 16	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
Computer equipment	42,234	-	19,463	-	(16,031)	-	(1,215)	44,451
Furniture & fixtures	42,195	-	5,214	31,221	(11,930)	-	(380)	66,320
Bins & shredding containers	462,220	-	118,287	280,468	(98,101)	(12,100)	(12,973)	737,801
Shredding vehicles - chassis	1,640,844	-	534,606	580,330	(249,985)	(70,440)	(61,124)	2,374,231
Shredding vehicles - box	3,615,782	-	922,211	1,045,380	(523,389)	(77,401)	(136,818)	4,845,765
Vehicles	32,693	-	3,195	52,400	(19,048)	(25,446)	(1,095)	42,699
Baling equipment	-	-	-	281,126	(12,447)	-	-	268,679
Right of use assets	-	1,277,839	313,848	631,089	(313,068)	-	(20,000)	1,889,708
<b>Total tangible assets</b>	<b>5,835,968</b>	<b>1,277,839</b>	<b>1,916,824</b>	<b>2,902,014</b>	<b>(1,243,999)</b>	<b>(185,387)</b>	<b>(233,605)</b>	<b>10,269,654</b>

	December 31, 2017					December 31, 2018	
	Net carrying value	Additions	Sale of assets	Acquisitions	Depreciation	Foreign exchange	Net carrying value
Computer equipment	42,690	39,072	-	863	(43,816)	3,425	42,234
Furniture & fixtures	43,626	13,217	-	-	(17,566)	2,918	42,195
Bins & shredding containers	256,431	147,343	(9,513)	173,202	(123,090)	17,847	462,220
Shredding vehicles - chassis	1,012,804	499,861	-	345,720	(303,594)	86,053	1,640,844
Shredding vehicles - box	2,389,916	999,271	-	709,799	(707,874)	224,670	3,615,782
Vehicles	26,767	5,874	(8,606)	43,215	(36,866)	2,309	32,693
<b>Total tangible assets</b>	<b>3,772,234</b>	<b>1,704,638</b>	<b>(18,119)</b>	<b>1,272,799</b>	<b>(1,232,806)</b>	<b>337,222</b>	<b>5,835,968</b>

The Company disposed of assets which resulted in a net gain recorded in the Consolidated Statement of Comprehensive (Loss) Income. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2019 and December 31, 2018. See note 18.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 7 Intangible assets

	June 30, 2019			December 31, 2018		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
Computer software	71,595	(20,978)	50,617	21,821	(4,546)	17,275
Customer relationships	11,644,192	(2,374,182)	9,270,010	7,082,548	(1,913,833)	5,168,715
Total intangible assets	11,715,787	(2,395,160)	9,320,627	7,104,369	(1,918,379)	5,185,990

	January 1, 2019						June 30, 2019
	Net carrying value	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	Net carrying value
Computer software	17,275	50,635	-	-	(10,498)	(6,795)	50,617
Customer relationships	5,168,715	-	(343,200)	5,182,264	(551,253)	(186,516)	9,270,010
Total intangible assets	5,185,990	50,635	(343,200)	5,182,264	(561,751)	(193,311)	9,320,627

	January 1, 2018						December 31, 2018
	Net carrying value	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	Net carrying value
Franchise agreements	34,238	-	-	-	(32,584)	(1,654)	-
Proshred system	16,309	-	-	-	(16,309)	-	-
Trademarks & intellectual property	27,891	-	-	-	(27,891)	-	-
Computer software	-	21,821	-	-	(4,546)	-	17,275
Re-acquired franchise rights	4,226	-	-	-	(3,743)	(483)	-
Customer relationships	1,795,456	-	(90,300)	3,542,915	(467,052)	387,696	5,168,715
Total intangible assets	1,878,120	21,821	(90,300)	3,542,915	(552,125)	385,559	5,185,990

On February 28, 2019, the Company sold the customer relationships located in Southern New Jersey to its Southern New Jersey franchisee. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2019 and December 31, 2018. See note 18.

### 8 Goodwill

The goodwill as at June 30, 2019 and December 31, 2018 is as follows:

	June 30, 2019	December 31, 2018
	\$	\$
<b>Opening balance</b>	4,812,448	1,720,437
Acquisitions	2,662,661	2,765,886
Foreign currency translation	(189,844)	326,125
<b>Closing balance</b>	<u>7,285,265</u>	<u>4,812,448</u>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 9 Notes payable

As at June 30, 2019, notes payable is comprised of:

Origination	Initial amount	Payment <sup>(1)</sup>	Interest per annum	Current portion	Long-term portion	Maturity
April 2, 2018	USD\$20,000	USD\$880	5.25%	CAD\$11,251 USD\$8,589	- -	April 4, 2020
October 1, 2018	USD\$550,000	USD\$16,484	5.00%	CAD\$236,009 USD\$180,160	CAD\$333,568 USD\$254,632	October 5, 2021
January 31, 2019	USD\$75,000	USD\$3,166	1.25%	CAD\$49,073 USD\$37,460	CAD\$28,910 USD\$22,069	January 31, 2021
January 31, 2019	USD\$150,000	USD\$6,332	1.25%	CAD\$98,146 USD\$74,920	CAD\$57,835 USD\$44,138	January 31, 2021
<b>Total Notes Payable</b>				<b>CAD\$394,479</b> <b>USD\$301,129</b>	<b>CAD\$420,313</b> <b>USD\$320,849</b>	

(1) Blended monthly payments of principal and interest.

### 10 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the acquisitions conducted. The contingent consideration liabilities are paid if certain financial results are achieved. The Company believes the financial results will be met over the period of time to maturity, requiring payment of all contingent consideration liabilities.

As of June 30, 2019, contingent consideration is comprised of:

Acquisition	Origination	Initial amount	Current Portion	Long-term Portion	Maturity
North Virginia	March 31, 2017	USD\$98,000	CAD\$10,923 USD\$8,338	CAD\$8,192 USD\$6,254	March 31, 2021
Safe Shredding	October 1, 2018	USD\$500,000	CAD\$218,335 USD\$166,668	CAD\$272,915 USD\$208,332	October 1, 2021
Kansas City	January 31, 2019	USD\$681,475	CAD\$745,358 USD\$568,975	- -	January 31, 2020
Secure E-Cycle	January 31, 2019	USD\$308,034	CAD\$354,400 USD\$270,534	- -	January 31, 2020
<b>Total contingent consideration</b>			<b>CAD\$1,329,016</b> <b>USD\$1,014,515</b>	<b>CAD\$281,107</b> <b>USD\$214,586</b>	

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 11 Long-term debt

As at June 30, 2019 and December 31, 2018 long-term debt is comprised of:

	June 30, 2019	December 31, 2018
	\$	\$
Bank indebtedness	7,114,172	1,438,166
Less: transaction costs	(234,419)	(116,402)
Net bank indebtedness (i)	6,879,753	1,321,764
Truck loans (ii)	2,961,031	2,041,740
Truck lease liability (iii)	916,656	1,074,987
Total long-term debt	10,757,440	4,438,491
Less: current portion	(2,198,695)	(1,253,723)
<b>Total long-term debt</b>	<b>8,558,745</b>	<b>3,184,768</b>

#### (i) Bank indebtedness

As of June 30, 2019, the Company has the following secured senior credit facilities:

1. An operating line of credit of CAD\$1 million;
2. A non-revolving term loan in the amount of CAD\$3 million and;
3. A non-revolving term loan in the amount of USD\$9.5 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

As at June 30, 2019, the Company's lender has advanced CAD\$2 million on the CAD\$3 million non-revolving term loan with an amortization period of 60 months from the date of drawdown, bearing interest at prime rate plus 1.00%. The current balance outstanding on this facility is CAD\$1.2 million at June 30, 2019.

On May 6, 2019, the Company's lender advanced CAD\$6 million (USD\$4.47 million) on the USD\$9.5 million term loan with an amortization period of 84 months from the date of drawdown, bearing interest at a fixed rate of 3.50%. The current balance outstanding on this facility is CAD\$5.87 million at June 30, 2019.

On May 6, 2019, the Company also revised the terms of its existing credit facilities with its lender. The CAD\$3 million non-revolving term loan interest rate was reduced from prime rate plus 2.50% to prime rate plus 1.00% and the operating line of credit interest rate was reduced from prime rate plus 1.25% to prime rate plus 1.00%.

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.

As of June 30, 2019, the Company has USD\$5.03 million and CAD\$2 million available on its senior credit facilities.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

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### 11 Long-term debt (continued)

#### (i) *Bank indebtedness* (continued)

The bank credit facilities as at June 30, 2019, 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 3.00:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 3.50:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed USD\$1.7 million in any fiscal year; and
5. Unfunded capital expenditures are not to exceed USD\$300,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12 month basis. As at June 30, 2019, the Company was in compliance with all of the banking covenants.

#### (ii) *Truck loans*

The Company has established a USD\$1.7 million line of credit for the purchase of shredding vehicles with a lender in the United States. The line of credit is available for one year, until November 2019 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used. The term of the loans are at the discretion of the Company. As of June 30, 2019, the Company has received an advance of USD\$952,430 on the line of credit, which is included in the truck loans balance. The Company has USD\$747,570 available for use on the line of credit as of June 30, 2019.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 11 Long-term debt (continued)

#### (ii) Truck loans (continued)

The loans noted below are secured by shredding vehicles. The information presented is as of June 30, 2019:

Origination	Initial amount	Payment <sup>(1)</sup>	Interest per annum	Asset carrying value	Loan value	Maturity
June 23, 2015	USD\$229,039	USD\$4,520	6.75%	CAD\$180,635	CAD\$68,479 USD\$52,274	June 23, 2020
July 22, 2015	USD\$300,000	USD\$7,283	7.50%	CAD\$150,904	CAD\$9,481 USD\$7,238	July 22, 2019
July 5, 2016	USD\$176,546	USD\$3,904	6.40%	CAD\$147,269	CAD\$73,488 USD\$56,098	September 5, 2020
September 5, 2016	USD\$381,572	USD\$7,392	5.95%	CAD\$451,430	CAD\$235,416 USD\$179,707	August 5, 2021
March 22, 2017	USD\$170,581	USD\$3,282	5.71%	CAD\$249,772	CAD\$130,847 USD\$99,883	March 22, 2022
May 3, 2017	USD\$230,956	USD\$4,465	5.99%	CAD\$249,707	CAD\$187,424 USD\$143,072	May 5, 2022
May 4, 2017	USD\$236,456	USD\$4,549	5.71%	CAD\$255,739	CAD\$191,461 USD\$146,154	May 4, 2022
April 3, 2018	USD\$227,137	USD\$4,331	5.39%	CAD\$268,243	CAD\$235,149 USD\$179,503	April 3, 2023
September 1, 2018	USD\$215,596	USD\$4,140	5.63%	CAD\$251,335	CAD\$241,179 USD\$184,106	August 20, 2023
December 11, 2018	USD\$220,685	USD\$4,250	5.75%	CAD\$275,597	CAD\$263,800 USD\$201,374	December 11, 2023
January 28, 2019	USD\$228,345	USD\$4,394	5.75%	CAD\$294,236	CAD\$282,107 USD\$215,349	February 5, 2024
March 5, 2019	USD\$216,908	USD\$4,093	4.95%	CAD\$270,966	CAD\$271,560 USD\$207,298	April 5, 2024
April 1, 2019	USD\$212,205	USD\$4,004	4.95%	CAD\$268,060	CAD\$269,796 USD\$205,950	April 1, 2024
April 26, 2019	USD\$206,750	USD\$4,872	5.75%	CAD\$269,860	CAD\$270,843 USD\$206,750	September 5, 2022
June 13, 2019	USD\$175,573	USD\$3,322	4.99%	CAD\$226,071	CAD\$230,001 USD\$175,573	July 1, 2024
<b>Total truck loans</b>					<b>CAD\$2,961,031</b> <b>USD\$2,260,329</b>	

(1) Blended monthly payments of principal and interest.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 11 Long-term debt (continued)

#### (iii) Truck lease liabilities

The truck leases noted below are secured by shredding vehicles. The information presented is as of June 30, 2019:

Origination	Initial amount	Payment <sup>(1)</sup>	Interest per annum	Asset carrying value	Loan value	Residual <sup>(2)</sup>	Maturity
August 5, 2018	USD\$54,814	USD\$1,556	6.50%	CAD\$2,747	CAD\$54,181 USD\$41,360	US\$8,692	August 5, 2021
August 20, 2018	USD\$46,177	USD\$1,304	6.50%	CAD\$34,140	CAD\$45,757 USD\$34,929	US\$7,252	August 20, 2021
August 20, 2018	USD\$95,948	USD\$2,576	6.50%	CAD\$110,334	CAD\$95,099 USD\$72,594	US\$14,400	August 20, 2021
September 10, 2018	USD\$7,902	USD\$276	6.21%	CAD\$6,942	CAD\$7,179 USD\$5,480	US\$882	September 10, 2021
October 2, 2018	USD\$119,553	USD\$3,329	5.95%	CAD\$197,180	CAD\$123,230 USD\$ 94,069	US\$12,000	October 2, 2021
October 2, 2018	USD\$171,000	USD\$3,105	5.95%	CAD\$204,913	CAD\$196,300 USD\$149,847	US\$49,000	October 2, 2022
October 2, 2018	USD\$175,463	USD\$3,865	5.95%	CAD\$204,688	CAD\$198,470 USD\$151,504	US\$18,500	October 2, 2022
October 2, 2018	USD\$171,000	USD\$3,106	5.95%	CAD\$204,913	CAD\$196,440 USD\$149,954	US\$49,000	October 2, 2022
<b>Total truck lease liabilities</b>					<b>CAD\$916,656</b> <b>USD\$699,737</b>		

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

Future minimum truck lease payments at June 30, 2019, stated in Canadian dollars, are as follows:

	2019 \$	2020 \$	2021 \$	2022 \$	Total \$
Lease payments	150,398	299,134	304,045	266,988	1,020,565
Finance charges	(25,988)	(41,665)	(25,863)	(10,393)	(103,909)
Net present values	124,410	257,469	278,182	256,595	916,656

At June 30, 2019, the future minimum lease payments have been translated at the closing exchange rate of USD\$1.00 = CAD\$1.31.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 11 Long-term debt (continued)

(iv) *Related party line of credit*

The Company has a related party line of credit facility for a maximum amount of CAD\$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 June 30, 2019, the facility has not been drawn upon (\$nil balance – December 31, 2018).

### 12 Lease liabilities

The Company enters into real-estate leases in order to secure office and warehouse space for the corporate location operations.

The activity related to the lease liabilities for the six months ended June 30, 2019 is as follows:

	<u>June 30, 2019</u>
	\$
<b>Opening balance, January 1, 2019</b>	1,277,839
Acquisitions	642,506
Additions	313,848
Imputed interest	(51,991)
Principal payments	(286,619)
Foreign exchange	23,107
	<u>1,918,690</u>
<b>Closing balance</b>	<u>1,918,690</u>

### 13 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:

	<u>Common stock</u>		<u>Warrants</u>		<u>Total</u>	
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>
Balance June 30, 2019	66,561,105	24,354,325	1,848,400	606,765	68,409,505	24,961,090
Balance December 31, 2018	66,557,355	24,350,575	1,852,150	610,515	68,409,505	24,961,090

#### c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the six months ended June 30, 2019, was 66,561,105 (December 31, 2018 – 55,724,940). The diluted weighted average number of common shares outstanding for the six months ended June 30, 2019, was 68,364,872 (December 31, 2018 – 56,979,703).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 13 Capital stock (continued)

#### d) Stock options

The following table summarizes the movements in the Company's stock options during the six months ended June 30, 2019 and the year ended December 31, 2018:

	2019		2018	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – Beginning of year	1,785,500	0.47	1,194,000	0.39
Granted	324,450	0.75	641,500	0.59
Exercised	–	–	(50,000)	0.10
Expired	(5,000)	–	–	–
Outstanding – End of year	<u>2,104,950</u>	0.52	<u>1,785,500</u>	0.47

For the six months ended June 30, 2019, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$99,902 (for the six months ended June 30, 2018 – \$210,011).

#### 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. There were 3,750 warrants exercised during the six months ended June 30, 2019 (nil – three months ended June 30, 2018). There are 1,848,400 warrants outstanding as of June 30, 2019.

### 14 Revenue

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

	For the 3 months ended June 30		For the 6 months ended June 30	
	2019	2018 (restated)	2019	2018 (restated)
	\$	\$	\$	\$
Royalties and license fees	605,490	562,350	1,172,719	1,071,385
Franchise fees	57,758	55,858	115,516	111,173
Ad Fund contributions (note 3)	73,447	42,075	143,804	125,185
Shredding services	4,156,444	2,353,194	7,800,969	4,473,747
Sale of paper products	676,704	570,510	1,539,641	956,789
<b>Total revenue</b>	<u>5,569,843</u>	<u>3,583,987</u>	<u>10,772,649</u>	<u>6,738,279</u>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 15 Corporate operating locations expenses

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>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Shredding vehicle and related expenses	698,261	380,106	1,282,760	720,123
Employee wages expense	1,680,790	880,800	3,180,642	1,594,708
Employee benefit expense	310,413	163,557	605,511	310,184
Office and administration expense	440,116	320,648	844,942	603,902
<b>Total corporate operating expenses</b>	<b>3,129,580</b>	<b>1,745,111</b>	<b>5,913,855</b>	<b>3,228,917</b>

### 16 Selling, general and administrative expenses

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>	
	<b>2019</b>	<b>2018 (restated)</b>	<b>2019</b>	<b>2018 (restated)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Employee wages and benefits	381,379	419,530	750,709	748,505
Share-based compensation	59,881	69,259	99,902	210,011
Acquisition costs	1,397	5,759	32,745	17,006
Professional fees	68,210	57,648	119,972	98,823
Travel	50,372	52,952	88,877	104,696
Technology	79,154	81,942	158,804	152,269
Rent and office expense	7,964	44,917	15,968	79,841
Selling and development	27,318	51,778	66,593	91,388
Ad Fund expenses (note 3)	42,494	68,120	155,441	187,073
Other expenses	31,119	30,800	59,067	64,821
<b>Total selling, general and administrative expenses</b>	<b>749,288</b>	<b>882,705</b>	<b>1,548,078</b>	<b>1,754,433</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 16 Selling, general and administrative expenses (continued)

#### 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>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wages and benefits	201,391	252,898	439,732	463,545
Share-based compensation	53,179	67,404	85,057	206,493
Total	254,570	320,302	524,789	670,038

Compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Corporate Development (2018), Senior Vice President of Operations and the Board of Directors.

### 17 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, 2037. During 2018, the Company recognized all temporary differences and non-capital losses and is expected to utilize those losses in 2019 and onward. During the six months ended June 30, 2019 the Company recorded a deferred income tax expense, reducing its deferred tax asset as the Company has estimated a portion of its losses that it anticipates utilizing.

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Provision for (recovery of) income taxes is comprised of:</b>				
Current income taxes	54,999	74,120	46,249	135,713
Deferred income taxes	55,324	(161,695)	87,739	(245,047)
Total	110,323	(87,575)	133,988	(109,334)

### 18 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, long-term debt and contingent consideration.

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

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### 18 Financial instruments and fair values (continued)

#### 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. As of June 30, 2019, the Company also has a variable interest rate of prime plus 1.00% per annum on one of its term loans and prime plus 1.70% per annum on its line of credit. The Company has a fixed interest rate of 3.50% per annum on another one of its term loans. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans and finance leases have fixed interest rates ranging from 4.95% to 7.50% per annum. The Company's notes payable have fixed interest rates ranging from 0% to 5.25%. 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. In addition, the receivable balances are monitored on an ongoing basis. As of June 30, 2019, six (6) franchisees accounted for 81% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2018 - 6 franchises accounted for 51%). For the six months ended June 30, 2019, three (3) franchisees accounted for 22% of the Company's revenues related to franchising and licensing (December 31, 2018 - 3 franchisees accounted for 23%). As of June 30, 2019, there were no accounts and notes receivable over 90 days old (December 31, 2018 – nil).

#### *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, 2019, no customer accounted for more than 10% of the accounts receivable balance. For the six months ended June 30, 2019 and 2018, no customer accounted for more than 10% of the Company's revenues in this category. As of June 30, 2019, 5% of accounts receivable in this category was over 90 days old (December 31, 2018 – 5%). As at June 30, 2019, the Company recorded an allowance for credit losses from receivables of \$2,347 related to corporate operations (December 31, 2018 - \$2,407). 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. The Company recorded a foreign exchange loss of \$740,058 (June 30, 2018 – gain of \$243,881) during the six months ended June 30, 2019.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

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### 18 Financial instruments and fair values (continued)

#### Foreign exchange risk (continued)

Exchange rates utilized (USD to CAD):

<b>As at,</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Close rate	1.31	1.36

  

<b>For the six months ended,</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
	\$	\$
Average rate	1.33	1.28

#### Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved.

Based on overall cash generation capacity and overall financial position, 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 \$5,918,543 at June 30, 2019 (December 31, 2018 - \$3,490,360), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$8,846,379 at June 30, 2019 (December 31, 2018 - \$10,778,632) including cash and cash equivalents of \$6,209,294 (December 31, 2018 - \$8,830,669).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 18 Financial instruments and fair values (continued)

<b>Principal</b>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2 – 5 years \$</b>	<b>Over 5 years \$</b>
Accounts payable and accrued liabilities	1,027,685	152,000	–	–
Notes payable	97,859	296,620	420,313	–
Long-term debt	544,025	1,654,670	8,558,745	–
Contingent consideration	270,190	1,058,826	281,107	–
Lease liabilities	151,167	441,309	1,265,124	61,090

  

<b>Interest</b>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2 – 5 years \$</b>	<b>Over 5 years \$</b>
Notes payable	8,736	20,820	17,636	–
Long-term debt	70,234	178,689	292,601	–
Lease liabilities	25,434	70,794	123,837	2,326

  

<b>Total principal and interest</b>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2 – 5 years \$</b>	<b>Over 5 years \$</b>
Accounts payable and accrued liabilities	1,027,685	152,000	–	–
Notes payable	106,595	317,440	437,949	–
Long-term debt	614,259	1,833,359	8,851,346	–
Contingent consideration	270,190	1,058,826	281,107	–
Lease liabilities	176,601	512,103	1,388,961	63,416

#### 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, long-term debt and contingent consideration 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, 2019, amounted to \$442,273 (December 31, 2018 - \$90,036) with fair value estimated to be \$430,391 (December 31, 2018 - \$90,036), respectively.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

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### 19 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 a banking institution 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 13 for the financial covenants.

### 20 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, 2019

(expressed in Canadian dollars)

### 20 Segment reporting (continued)

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

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>June 30, 2019</b>	<b>June 30, 2019</b>	<b>June 30, 2019</b>	<b>June 30, 2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	1,445,349	1,473,641	3,290,304	6,209,294
Cash attributable to the Ad Fund	231,641	-	-	231,641
Trade and other receivables	166,983	1,578,603	145,842	1,891,428
Prepaid expenses	30,259	278,289	95,691	404,239
Notes receivable from franchisees	109,777	-	-	109,777
<b>Total current assets</b>	<b>1,984,009</b>	<b>3,330,533</b>	<b>3,531,837</b>	<b>8,846,379</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	332,496	-	-	332,496
Tangible assets	-	9,612,610	657,044	10,269,654
Intangible assets	22,901	9,262,279	35,447	9,320,627
Goodwill	-	7,285,265	-	7,285,265
Deferred tax asset	-	-	1,199,734	1,199,734
<b>Total assets</b>	<b>2,339,406</b>	<b>29,490,687</b>	<b>5,424,062</b>	<b>37,254,155</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	36,341	613,834	529,510	1,179,685
Deferred revenue	224,192	-	-	224,192
Contingent consideration	-	1,329,016	-	1,329,016
Notes payable	-	394,479	-	394,479
Current portion of long-term debt	-	2,198,695	-	2,198,695
Lease liabilities	-	476,377	116,099	592,476
<b>Total current liabilities</b>	<b>260,533</b>	<b>5,012,401</b>	<b>645,609</b>	<b>5,918,543</b>
<b>Non-current liabilities</b>				
Long-term debt	-	8,558,745	-	8,558,745
Deferred revenue	301,149	-	-	301,149
Contingent consideration	-	281,107	-	281,107
Notes payable	-	420,313	-	420,313
Lease liabilities	-	793,830	532,384	1,326,214
<b>Total liabilities</b>	<b>561,682</b>	<b>15,066,396</b>	<b>1,177,993</b>	<b>16,806,071</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 20 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	December 31, 2018	December 31, 2018	December 31, 2018	December 31, 2018
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	148,241	1,324,593	7,357,835	8,830,669
Cash attributable to the Ad Fund	215,709	-	-	215,709
Trade and other receivables	188,885	1,207,416	65,261	1,461,562
Prepaid expenses	18,683	156,035	48,478	223,196
Notes receivable from franchisees	47,496	-	-	47,496
<b>Total current assets</b>	<b>619,014</b>	<b>2,688,044</b>	<b>7,471,574</b>	<b>10,778,632</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	42,450	-	-	42,450
Tangible assets	5,135	5,796,040	34,793	5,835,968
Intangible assets	17,275	5,168,715	-	5,185,990
Goodwill	-	4,812,448	-	4,812,448
Deferred tax asset	-	-	1,287,473	1,287,473
<b>Total assets</b>	<b>683,874</b>	<b>18,465,247</b>	<b>8,793,840</b>	<b>27,942,961</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	120,512	710,868	579,900	1,411,280
Deferred revenue	236,821	-	-	236,821
Current income taxes payable	-	-	53,543	53,543
Contingent consideration	-	253,180	-	253,180
Notes payable	-	281,813	-	281,813
Current portion of long-term debt	-	1,253,723	-	1,253,723
<b>Total current liabilities</b>	<b>357,333</b>	<b>2,499,584</b>	<b>633,443</b>	<b>3,490,360</b>
<b>Non-current liabilities</b>				
Long-term debt	-	3,184,768	-	3,184,768
Deferred revenue	428,464	-	-	428,464
Contingent consideration	-	415,437	-	415,437
Notes payable	-	476,397	-	476,397
<b>Total liabilities</b>	<b>785,797</b>	<b>6,576,186</b>	<b>633,443</b>	<b>7,995,426</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 20 Segment reporting (continued)

#### Geographic information

	June 30, 2019	December 31, 2018
<b>Canada</b>	<b>\$</b>	<b>\$</b>
Tangible assets	657,044	34,793
Intangible assets	35,421	–
<b>United States</b>		
Notes receivable from franchisees	442,273	89,946
Tangible assets	9,612,610	5,801,175
Intangible assets	9,285,206	5,185,990
Goodwill	7,285,265	4,812,448
<b>Total</b>		
Notes receivable from franchisees	442,273	89,946
Tangible assets	10,269,654	5,835,968
Intangible assets	9,320,627	5,185,990
Goodwill	7,285,265	4,812,448

#### Revenue

All revenues were attributed to the United States.

#### Net income (loss) by operating segment

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

	For the three months ended June 30, 2019			
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	Total \$
Revenue	736,695	4,833,148	–	5,569,843
Direct costs	–	(3,129,580)	–	(3,129,580)
Selling, general and administrative	(337,088)	(137,080)	(275,120)	(749,288)
Depreciation – tangible assets	–	(613,032)	(43,531)	(656,563)
Operating income (loss)	399,607	953,456	(318,651)	1,034,412
Amortization – intangible assets	(4,673)	(308,629)	–	(313,302)
Foreign exchange loss	–	–	(507,927)	(507,927)
Loss on sale of assets	–	(38,237)	–	(38,237)
Interest expense	–	(149,820)	–	(149,820)
Interest income	4,618	–	–	4,618
Income tax expense	(20,708)	(34,298)	(55,317)	(110,323)
Net income (loss)	378,844	422,472	(881,895)	(80,579)

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 20 Segment reporting (continued)

#### For the three months ended June 30, 2018

	<b>Franchising (restated)</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total (restated)</b>
	\$	\$	\$	\$
Revenue	660,283	2,923,704	–	3,583,987
Direct costs	–	(1,745,111)	–	(1,745,111)
Selling, general and administrative	(309,302)	(425,946)	(147,457)	(882,705)
Depreciation – tangible assets	(990)	(266,522)	(5,073)	(272,585)
Operating income (loss)	349,991	486,125	(152,530)	683,586
Amortization – intangible assets	(409)	(94,958)	–	(95,367)
Transaction recovery	–	17,840	–	17,840
Foreign exchange gain	–	–	91,295	91,295
Interest expense	–	(66,080)	–	(66,080)
Interest income	1,029	–	–	1,029
Income tax (expense) recovery	(25,912)	(2,175)	115,662	87,575
Net income	324,699	340,752	54,427	719,878

#### For the six months ended June 30, 2019

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue	1,432,039	9,340,610	–	10,772,649
Direct costs	–	(5,913,855)	–	(5,913,855)
Selling, general and administrative	(648,559)	(274,160)	(625,359)	(1,548,078)
Depreciation – tangible assets	(11,884)	(1,160,668)	(71,447)	(1,243,999)
Operating income (loss)	771,596	1,991,927	(696,806)	2,066,717
Amortization – intangible assets	(9,241)	(552,510)	–	(561,751)
Foreign exchange loss	–	–	(740,058)	(740,058)
Gain on sale of assets	–	93,017	–	93,017
Interest expense	–	(272,115)	–	(272,115)
Interest income	5,661	–	7,250	12,911
Income tax expense	(31,674)	(14,988)	(87,326)	(133,988)
Net income (loss)	736,342	1,245,331	(1,516,940)	464,733

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

June 30, 2019

(expressed in Canadian dollars)

### 20 Segment reporting (continued)

	For the six months ended June 30, 2018			
	Franchising (restated)	Corporate locations	Corporate overhead	Total (restated)
	\$	\$	\$	\$
Revenue	1,307,743	5,430,536	–	6,738,279
Direct costs	–	(3,228,917)	–	(3,228,917)
Selling, general and administrative	(620,378)	(527,413)	(606,642)	(1,754,433)
Depreciation – tangible assets	(1,957)	(508,454)	(9,685)	(520,096)
Operating income (loss)	685,408	1,165,752	(616,327)	1,234,833
Amortization – intangible assets	(79,047)	(177,043)	–	(256,090)
Transaction recovery	–	17,840	–	17,840
Foreign exchange gain	–	–	243,881	243,881
Interest expense	–	(131,540)	–	(131,540)
Interest income	2,221	–	–	2,221
Income tax (expense) recovery	(60,857)	(28,825)	199,016	109,334
Net income (loss)	547,725	846,184	(173,430)	1,220,479

### 21 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of \$685 due from this franchise at June 30, 2019 (December 31, 2018 - \$nil). During the six months ended June 30, 2019, the Company earned royalties, service fees, franchise fees and interest income of \$92,067 (six months ended June 30, 2018 - \$75,328) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$3,886, which has an interest rate of 5% per annum.

### 22 Subsequent events

On July 4, 2019, the Company completed a private placement of 11,842,000 common shares at a price of \$0.95 per common share for total gross proceeds of \$11,249,900. The net proceeds of the private placement will be used to fund future growth initiatives including both acquisitions and organic growth, and for general corporate purposes. Broker commissions will be paid in connection with the offerings of approximately \$683,000, as well as legal fees of approximately \$107,000.