

# **RediShred Capital Corp.**

Consolidated Interim Financial Statements  
**September 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.

**November 28, 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 September 30, 2019.**

# RediShred Capital Corp.

## Consolidated Statements of Financial Position

As at September 30, 2019 and December 31, 2018

(expressed in Canadian dollars)

	September 30, 2019 \$	December 31, 2018 (see note 2) \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	16,451,180	8,830,669
Cash attributable to the Advertising Fund (note 4)	260,343	215,709
Trade and other receivables (note 5)	1,724,229	1,461,562
Prepaid expenses	373,964	223,196
Notes receivable from franchisees (note 6)	106,639	47,496
<b>Total current assets</b>	<b>18,916,355</b>	<b>10,778,632</b>
<b>Non-current assets</b>		
Notes receivable from franchisees (note 6)	308,241	42,450
Tangible assets (note 7)	9,911,397	5,835,968
Intangible assets (note 8)	9,169,941	5,185,990
Goodwill (notes 9)	7,340,878	4,812,448
Deferred tax asset (note 18)	1,199,872	1,287,473
<b>Total non-current assets</b>	<b>27,930,329</b>	<b>17,164,329</b>
<b>Total assets</b>	<b>46,846,684</b>	<b>27,942,961</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,115,053	1,411,280
Income taxes payable	–	53,543
Deferred revenue	223,596	236,821
Current portion of long-term debt (note 12)	2,207,496	1,253,723
Notes payable (note 10)	397,590	281,813
Contingent consideration (note 11)	1,126,485	253,180
Lease liabilities (note 13)	601,777	–
<b>Total current liabilities</b>	<b>5,671,997</b>	<b>3,490,360</b>
<b>Non-current liabilities</b>		
Long-term debt (note 12)	8,032,646	3,184,768
Deferred revenue	248,431	428,464
Notes payable (note 10)	324,816	476,397
Contingent consideration (note 11)	226,413	415,437
Lease liabilities (note 13)	1,276,592	–
<b>Total non-current liabilities</b>	<b>10,108,898</b>	<b>4,505,066</b>
<b>Total liabilities</b>	<b>15,780,895</b>	<b>7,995,426</b>
<b>Shareholders' equity</b>		
Capital stock (note 14)	35,375,581	24,961,090
Contributed surplus	1,032,919	890,757
Accumulated foreign currency translation loss	(705,915)	(649,893)
Deficit	(4,636,796)	(5,254,419)
	<b>31,065,789</b>	<b>19,947,535</b>
<b>Total liabilities and shareholders' equity</b>	<b>46,846,684</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 Income

For the three and nine months ended September 30, 2019 and 2018

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	<b>2019</b> \$	<b>2018</b> (restated – see note 2) \$	<b>2019</b> \$	<b>2018</b> (restated – see note 2) \$
Revenue (note 15)	5,352,754	3,632,924	16,125,403	10,371,203
Corporate location expenses (note 16)	(3,229,496)	(1,939,101)	(9,143,351)	(5,168,018)
Selling, general and administrative expenses (note 17)	(994,222)	(840,103)	(2,542,300)	(2,594,536)
<b>Income before depreciation</b>	1,129,036	853,720	4,439,752	2,608,649
Depreciation – tangible assets	(688,358)	(296,742)	(1,917,122)	(816,838)
<b>Operating income</b>	440,678	556,978	2,522,630	1,791,811
Interest expense	(169,281)	(71,587)	(441,397)	(203,127)
Interest income	49,032	12,737	61,943	14,958
<b>Income before the following</b>	320,429	498,128	2,143,176	1,603,642
Amortization – intangible assets	(300,052)	(101,926)	(877,038)	(358,015)
(Loss) gain on sale of assets (note 7)	(13,058)	8,030	79,958	8,030
Transaction recovery	–	13,018	–	30,858
Foreign exchange gain (loss)	155,239	(129,751)	(584,819)	114,131
<b>Income before income taxes</b>	162,558	287,499	761,277	1,398,646
Income tax (expense) recovery (note 18)	(9,666)	51,408	(143,654)	160,740
<b>Net income for the period</b>	152,892	338,907	617,623	1,559,386
Foreign currency translation gain (loss)	9,571	(80,254)	(56,022)	(83,962)
<b>Comprehensive income for the period</b>	162,463	258,653	561,601	1,475,424
<b>Net income per share</b>				
Basic	0.002	0.005	0.009	0.028
Diluted	0.002	0.005	0.009	0.028
<b>Weighted average number of common shares outstanding – basic</b>	66,561,105	60,695,251	70,399,385	52,043,427
<b>Weighted average number of common shares outstanding – diluted</b>	68,513,218	61,881,623	72,124,356	53,159,841

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

## RediShred Capital Corp.

### Consolidated Statements of Changes in Equity

For the nine months ended September 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	–	48,459
Comprehensive income for the year					2,760,937
Issue of shares (note 14)	10,898,711	(4,664)	–	–	10,894,047
Stock-based compensation (note 14)	–	248,138	–	–	248,138
<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	–	–	–	617,623	617,623
Foreign currency translation loss	–	–	(56,022)	–	(56,022)
Comprehensive income for the period					561,601
Issue of shares (note 14)	10,414,491	10,507	–	–	10,424,998
Stock-based compensation (note 14)	–	131,655	–	–	131,655
<b>Balance – September 30, 2019</b>	<b>35,375,581</b>	<b>1,032,919</b>	<b>(705,915)</b>	<b>(4,636,796)</b>	<b>31,065,789</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 nine months ended September 30, 2019 and 2018

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	<b>2019 \$</b>	<b>2018 (restated) \$</b>	<b>2019 \$</b>	<b>2018 (restated) \$</b>
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income for the period	152,892	338,907	617,623	1,559,386
Items not affecting cash				
Amortization of tangible and intangible assets	988,410	398,668	2,794,160	1,174,853
Stock-based compensation	31,753	18,793	131,655	228,804
Unrealized foreign currency (gain) loss	(31,752)	(122,865)	518,054	(356,454)
Transaction recovery	–	(21,048)	–	(38,888)
Income tax (expense) recovery	(924)	(149,865)	86,400	(395,639)
	<u>1,140,379</u>	<u>462,590</u>	<u>4,147,892</u>	<u>2,172,062</u>
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	89,597	(90,585)	(44,421)	(173,544)
Decrease (increase) in prepaid expenses	32,469	39,586	(157,454)	3,619
(Decrease) increase in accounts payable and accrued liabilities	(65,669)	232,854	(266,693)	176,443
Increase (decrease) in income taxes payable	14,293	(239)	(105,759)	(44,219)
(Decrease) in deferred revenue	(57,758)	(56,889)	(173,274)	(168,062)
	<u>1,153,311</u>	<u>587,317</u>	<u>3,400,291</u>	<u>1,966,299</u>
<b>Financing activities</b>				
Borrowings from long-term debt	–	280,390	7,377,877	571,126
Repayment of long-term debt	(548,933)	(271,022)	(1,471,414)	(804,946)
Issuance of capital stock (net of fees)	10,413,141	10,274,806	10,414,491	10,277,306
Payment of contingent considerations	(272,023)	(27,529)	(600,398)	(49,861)
Repayment (issuance) of notes receivable	8,396	(66,207)	42,282	(6,022)
Payment of notes payable	(100,196)	(33,351)	(308,454)	(99,150)
New lease liabilities	2,396	–	316,243	–
Payment of lease liabilities	(51,926)	–	(332,377)	–
	<u>9,450,855</u>	<u>10,157,087</u>	<u>15,438,250</u>	<u>9,888,453</u>
<b>Investing activities</b>				
Acquisitions	–	1,200	(8,760,643)	(1,205,066)
Cash held by advertising fund	(27,137)	(683)	(51,952)	15,798
Purchase of tangible and intangible assets	(360,787)	(324,448)	(2,307,618)	(738,951)
Proceeds from sale of assets	1,000	98,891	132,000	98,891
	<u>(386,924)</u>	<u>(225,040)</u>	<u>(10,988,213)</u>	<u>(1,829,328)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>24,644</u>	<u>(33,806)</u>	<u>(229,817)</u>	<u>34,516</u>
<b>Net change in cash for the period</b>	<u>10,241,886</u>	<u>10,485,558</u>	<u>7,620,511</u>	<u>10,059,940</u>
<b>Cash – Beginning of period</b>	<u>6,209,294</u>	<u>1,819,915</u>	<u>8,830,669</u>	<u>2,245,533</u>
<b>Cash – End of period</b>	<u>16,451,180</u>	<u>12,305,473</u>	<u>16,451,180</u>	<u>12,305,473</u>

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 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 September 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 September 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 was 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 nine months ended September 30, 2019 were authorized for issue in accordance with a resolution of the Directors on November 27, 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

September 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 – leases of low-value assets.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 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

September 30, 2019

(expressed in Canadian dollars)

### 3 Cash and cash equivalents

The Company's cash balances are held in bank accounts in Canada and United States, which the Company has full access to. As at September 30, 2019, the Company also has CAD\$2 million and USD\$9.5 million redeemable Guaranteed Investment Certificates (GIC's) held with its banking institution. Refer to note 19 for interest rate details. The Company received an advance on its operating line of credit under its senior credit facilities, of which the balance is \$68,704 on September 30, 2019 (nil balance – December 31, 2018). Borrowings under the operating line of credit are limited by standard borrowing base calculations based on accounts receivable, which are typical for bank credit facilities. The operating line of credit has \$250,000 permanently available.

### 4 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 September 30, 2019 and December 31, 2018 are as follows:

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	\$	\$	\$	\$
Ad Fund contributions	73,917	55,404	217,721	181,122
Ad Fund expenses	(93,025)	(76,220)	(248,466)	(263,293)
Ad Fund net income (loss)	(19,108)	(20,816)	(30,745)	(82,171)

<b>As at,</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Cash attributable to the Ad Fund	260,343	215,709

### 5 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 September 30, 2019 and December 31, 2018 are as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Trade receivables	1,643,595	1,395,888
Other receivables	82,963	68,081
Less: Allowance for doubtful accounts	(2,329)	(2,407)
Trade receivables – net	1,724,229	1,461,562

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 6 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.

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

	September 30, 2019	December 31, 2018
	\$	\$
Opening balance	89,946	104,226
Add: new notes	402,600	81,828
Less: repayments	(77,666)	(96,108)
Closing balance	414,880	89,946

### 7 Tangible assets

	September 30, 2019			December 31, 2018		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Computer equipment	309,594	(262,881)	46,713	299,128	(256,894)	42,234
Furniture & fixtures	207,415	(142,181)	65,234	166,361	(124,166)	42,195
Bins & shredding containers	1,456,952	(713,156)	743,796	1,048,222	(586,002)	462,220
Shredding vehicles - chassis	3,478,783	(1,196,638)	2,282,145	2,491,987	(851,143)	1,640,844
Shredding vehicles - box	7,422,632	(2,786,678)	4,635,954	5,696,153	(2,080,371)	3,615,782
Vehicles	172,238	(137,330)	34,908	160,486	(127,793)	32,693
Baling equipment	283,272	(19,915)	263,357	-	-	-
Right of use assets	2,315,509	(476,219)	1,839,290	-	-	-
Total tangible assets	15,646,395	(5,734,998)	9,911,397	9,862,337	(4,026,369)	5,835,968

	December 31, 2018	January 1, 2019						September 30, 2019
	Net carrying value	Adoption of IFRS 16	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
Computer equipment	42,234	-	34,621	-	(22,083)	-	(8,059)	46,713
Furniture & fixtures	42,195	-	11,072	31,221	(18,940)	-	(314)	65,234
Bins & shredding containers	462,220	-	174,379	280,468	(151,184)	(12,193)	(9,894)	743,796
Shredding vehicles - chassis	1,640,844	-	571,066	580,330	(389,191)	(71,056)	(49,848)	2,282,145
Shredding vehicles - box	3,615,782	-	971,152	1,045,380	(809,589)	(78,171)	(108,600)	4,635,954
Vehicles	32,693	-	3,620	52,400	(27,205)	(25,746)	(854)	34,908
Baling equipment	-	-	-	281,126	(19,915)	-	2,146	263,357
Right of use assets	-	1,277,839	425,822	631,089	(479,015)	-	(16,445)	1,839,290
Total tangible assets	5,835,968	1,277,839	2,191,732	2,902,014	(1,917,122)	(187,166)	(191,868)	9,911,397

	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
Total tangible assets	3,772,234	1,704,638	(18,119)	1,272,799	(1,232,806)	337,222	5,835,968

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 7 Tangible assets (continued)

During the nine months ended September 30, 2019, the Company disposed of assets which resulted in a net gain recorded in the Consolidated Statements of Comprehensive Income. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at September 30, 2019 and December 31, 2018. See note 18.

### 8 Intangible assets

	September 30, 2019			December 31, 2018		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
Computer software	175,965	(45,788)	130,177	21,821	(4,546)	17,275
Customer relationships	11,733,079	(2,693,315)	9,039,764	7,082,548	(1,913,833)	5,168,715
Total intangible assets	11,909,044	(2,739,103)	9,169,941	7,104,369	(1,918,379)	5,185,990

  

	January 1, 2019						September 30, 2019
	Net carrying value	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	Net carrying value
Computer software	17,275	139,695	-	-	(35,732)	8,939	130,177
Customer relationships	5,168,715	-	(343,200)	5,182,264	(841,307)	(126,708)	9,039,764
Total intangible assets	5,185,990	139,695	(343,200)	5,182,264	(877,039)	(117,769)	9,169,941

  

	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 September 30, 2019 and December 31, 2018. See note 18.

### 9 Goodwill

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

	September 30, 2019	December 31, 2018
	\$	\$
Opening balance	4,812,448	1,720,437
Acquisitions	2,662,661	2,765,886
Foreign currency translation	(134,231)	326,125
Closing balance	7,340,878	4,812,448

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 10 Notes payable

As at September 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\$7,988 USD\$6,051	– –	April 4, 2020
October 1, 2018	USD\$550,000	USD\$16,484	5.00%	CAD\$240,796 USD\$182,421	CAD\$274,800 USD\$208,170	October 5, 2021
January 31, 2019	USD\$75,000	USD\$3,166	1.25%	CAD\$49,602 USD\$37,577	CAD\$16,672 USD\$12,630	January 31, 2021
January 31, 2019	USD\$150,000	USD\$6,332	1.25%	CAD\$99,204 USD\$75,155	CAD\$33,344 USD\$25,261	January 31, 2021
<b>Total Notes Payable</b>				<b>CAD\$397,590</b> <b>USD\$301,204</b>	<b>CAD\$324,816</b> <b>USD\$246,061</b>	

(1) Blended monthly payments of principal and interest.

### 11 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 September 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\$12,830 USD\$9,720	CAD\$6,415 USD\$4,860	March 31, 2021
Safe Shredding	October 1, 2018	USD\$500,000	CAD\$220,002 USD\$166,668	CAD\$219,998 USD\$166,664	October 1, 2021
Kansas City	January 31, 2019	USD\$681,475	CAD\$602,548 USD\$456,475	– –	January 31, 2020
Secure E-Cycle	January 31, 2019	USD\$308,034	CAD\$291,105 USD\$220,534	– –	January 31, 2020
<b>Total contingent consideration</b>			<b>CAD\$1,126,485</b> <b>USD\$853,397</b>	<b>CAD\$226,413</b> <b>USD\$171,524</b>	

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 12 Long-term debt

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

	September 30, 2019	December 31, 2018
	\$	\$
Bank indebtedness	6,822,654	1,438,166
Less: transaction costs	(221,385)	(116,402)
Net bank indebtedness (i)	6,601,269	1,321,764
Truck loans (ii)	2,777,209	2,041,740
Truck lease liability (iii)	861,664	1,074,987
Total long-term debt	10,240,142	4,438,491
Less: current portion	(2,207,496)	(1,253,723)
<b>Total long-term debt</b>	<b>8,032,646</b>	<b>3,184,768</b>

#### (i) Bank indebtedness

As of September 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 September 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 balance outstanding on this facility is CAD\$1.14 million at September 30, 2019.

The Company received an advance on its operating line of credit under its senior credit facilities, of which the balance is \$68,704 on September 30, 2019 (nil balance – December 31, 2018). Borrowings under the operating line of credit are limited by standard borrowing base calculations based on accounts receivable, which are typical for bank credit facilities. The operating line of credit has \$250,000 permanently available.

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 balance outstanding on this facility is CAD\$5.69 million at September 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 September 30, 2019, the Company has USD\$5 million and CAD\$1.9 million available on its senior credit facilities.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

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### 12 Long-term debt (continued)

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

The bank credit facilities as at September 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 September 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 September 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 September 30, 2019.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 12 Long-term debt (continued)

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

The loans noted below are secured by shredding vehicles. The information presented is as of September 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\$173,116	CAD\$52,196 USD\$39,543	June 23, 2020
July 5, 2016	USD\$176,546	USD\$3,904	6.40%	CAD\$138,065	CAD\$59,721 USD\$45,243	September 5, 2020
September 5, 2016	USD\$381,572	USD\$7,392	5.95%	CAD\$439,168	CAD\$211,417 USD\$160,164	August 5, 2021
March 22, 2017	USD\$170,581	USD\$3,282	5.71%	CAD\$236,634	CAD\$120,719 USD\$91,453	March 22, 2022
May 3, 2017	USD\$230,956	USD\$4,465	5.99%	CAD\$241,738	CAD\$173,926 USD\$131,762	May 5, 2022
May 4, 2017	USD\$236,456	USD\$4,549	5.71%	CAD\$255,739	CAD\$177,648 USD\$134,582	May 4, 2022
April 3, 2018	USD\$227,137	USD\$4,331	5.39%	CAD\$260,651	CAD\$222,946 USD\$168,899	April 3, 2023
September 1, 2018	USD\$215,596	USD\$4,140	5.63%	CAD\$241,007	CAD\$229,988 USD\$174,233	August 20, 2023
December 11, 2018	USD\$220,685	USD\$4,250	5.75%	CAD\$268,282	CAD\$252,829 USD\$191,537	December 11, 2023
January 28, 2019	USD\$228,345	USD\$4,394	5.75%	CAD\$283,065	CAD\$270,884 USD\$205,215	February 5, 2024
March 5, 2019	USD\$216,908	USD\$4,093	4.95%	CAD\$260,804	CAD\$260,788 USD\$197,567	April 5, 2024
April 1, 2019	USD\$212,205	USD\$4,004	4.95%	CAD\$258,132	CAD\$259,340 USD\$196,470	April 1, 2024
April 26, 2019	USD\$206,750	USD\$4,872	5.75%	CAD\$281,371	CAD\$259,321 USD\$196,456	September 5, 2022
June 13, 2019	USD\$175,573	USD\$3,322	4.99%	CAD\$211,681	CAD\$225,486 USD\$170,823	July 1, 2024
<b>Total truck loans</b>					<b>CAD\$2,777,209</b> <b>USD\$2,103,947</b>	

(1) Blended monthly payments of principal and interest.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 12 Long-term debt (continued)

#### (iii) Truck lease liabilities

The truck leases noted below are secured by shredding vehicles. The information presented is as of September 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\$2,571	CAD\$49,642 USD\$37,608	US\$8,692	August 5, 2021
August 20, 2018	USD\$46,177	USD\$1,304	6.50%	CAD\$24,751	CAD\$41,920 USD\$31,758	US\$7,252	August 20, 2021
August 20, 2018	USD\$95,948	USD\$2,576	6.50%	CAD\$97,010	CAD\$87,133 USD\$66,010	US\$14,400	August 20, 2021
September 10, 2018	USD\$7,902	USD\$276	6.21%	CAD\$11,068	CAD\$5,448 USD\$4,127	US\$882	September 10, 2021
October 2, 2018	USD\$119,553	USD\$3,329	5.95%	CAD\$187,791	CAD\$112,857 USD\$ 85,498	US\$12,000	October 2, 2021
October 2, 2018	USD\$171,000	USD\$3,105	5.95%	CAD\$296,716	CAD\$188,432 USD\$142,752	US\$49,000	October 2, 2022
October 2, 2018	USD\$175,463	USD\$3,865	5.95%	CAD\$196,500	CAD\$187,671 USD\$142,175	US\$18,500	October 2, 2022
October 2, 2018	USD\$171,000	USD\$3,106	5.95%	CAD\$196,716	CAD\$188,561 USD\$142,849	US\$49,000	October 2, 2022
<b>Total truck lease liabilities</b>					<b>CAD\$861,664</b> <b>USD\$652,777</b>		

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

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

	2019 \$	2020 \$	2021 \$	2022 \$	Total \$
Lease payments	85,169	300,022	293,731	273,483	952,405
Finance charges	(14,229)	(41,131)	(24,909)	(10,472)	(90,741)
Net present values	70,940	258,891	268,822	263,011	861,664

At September 30, 2019, the future minimum lease payments have been translated at the closing exchange rate of USD\$1.00 = CAD\$1.32.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

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### 12 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 September 30, 2019, the facility has not been drawn upon (\$nil balance – December 31, 2018).

### 13 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 nine months ended September 30, 2019 is as follows:

	<u>September 30, 2019</u>
	\$
<b>Opening balance, January 1, 2019</b>	1,277,839
Acquisitions	642,506
Additions	313,848
Imputed interest	(77,404)
Principal payments	(440,584)
Foreign exchange	162,164
	<hr/>
<b>Closing balance, September 30, 2019</b>	<u>1,878,369</u>

### 14 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 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. The gross proceeds have been recorded net of transaction costs of \$835,252.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 14 Capital stock (continued)

#### (b) Issued and fully paid (continued)

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

	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance September 30, 2019	78,428,105	34,775,573	1,823,400	600,008	80,251,505	35,375,581
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 nine months ended September 30, 2019, was 70,399,385 (December 31, 2018 – 55,724,940). The diluted weighted average number of common shares outstanding for the nine months ended September 30, 2019, was 72,124,356 (December 31, 2018 – 56,979,703).

#### d) 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 25,000 warrants exercised during the three months ended September 30, 2019 and 28,750 warrants exercised during the nine months ended September 30, 2019 (nil – three and nine months ended September 30, 2018). There are 1,823,400 warrants outstanding as of September 30, 2019.

#### e) Stock options

The following table summarizes the movements in the Company's stock options during the nine months ended September 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 period	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	(10,000)	0.13	–	–
Outstanding – End of period	<u>2,099,950</u>	0.75	<u>1,785,500</u>	0.47

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 15 Revenue

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	<b>2019</b>	<b>2018 (restated)</b>	<b>2019</b>	<b>2018 (restated)</b>
	\$	\$	\$	\$
Royalties and license fees	559,517	542,927	1,732,236	1,614,313
Franchise fees	57,758	56,889	173,274	168,062
Ad Fund contributions (note 4)	73,917	55,404	217,721	181,122
Shredding	4,200,098	2,361,686	12,001,067	6,834,899
Recycling	461,464	616,018	2,001,105	1,572,807
<b>Total revenue</b>	<b>5,352,754</b>	<b>3,632,924</b>	<b>16,125,403</b>	<b>10,371,203</b>

### 16 Corporate location expenses

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	\$	\$	\$	\$
Shredding vehicle and related expenses	756,576	474,624	2,039,336	1,194,747
Acquisition costs	128,345	41,280	256,690	67,080
Employee wages expense	1,569,439	958,724	4,621,735	2,527,632
Employee benefit expense	342,821	150,679	948,332	460,863
Office and administration expense	432,315	313,794	1,277,258	917,696
<b>Total corporate location expenses</b>	<b>3,229,496</b>	<b>1,939,101</b>	<b>9,143,351</b>	<b>5,168,018</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 17 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 September 30</i>		<i>For the 9 months ended September 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	442,375	374,174	1,193,086	1,122,677
Share-based compensation	31,754	18,793	131,655	228,804
Acquisition costs	113,492	64,623	146,237	81,629
Other expenses	313,576	306,293	822,856	898,133
Ad Fund expenses (note 4)	93,025	76,220	248,466	263,293
<b>Total selling, general and administrative expenses</b>	<b>994,222</b>	<b>840,103</b>	<b>2,542,300</b>	<b>2,594,536</b>

### 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 September 30</i>		<i>For the 9 months ended September 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	210,957	253,284	650,688	716,829
Share-based compensation	78,013	16,772	163,070	223,265
Total	288,970	270,056	813,758	940,094

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.

### 18 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 nine months ended September 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.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 18 Income taxes (continued)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Provision for (recovery of) income taxes is comprised of:</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current income taxes	10,405	98,733	56,654	234,446
Deferred income taxes	(739)	(150,141)	87,000	(395,186)
Total	9,666	(51,408)	143,654	(160,740)

### 19 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.

#### Interest rate risk

The Company's cash is subject to interest rate risk, as it earns and pays interest at prevailing and fluctuating market rates. The Company has a fixed interest rate on its GIC's of 2.15% per annum. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.25% per annum. As of September 30, 2019, the Company also has a variable interest rate of prime plus 1.00% per annum on one of its term loans and 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 6.75% 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.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

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

#### Credit risk (continued)

##### *Receivables related to franchising and licensing*

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of September 30, 2019, six (6) franchisees accounted for 90% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2018 - 6 franchisees accounted for 51%). For the nine months ended September 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 September 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 September 30, 2019, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2019 and 2018, no customer accounted for more than 10% of the Company's revenues in this category. As of September 30, 2019, 6% of accounts receivable in this category was over 90 days old (December 31, 2018 – 5%). As at September 30, 2019, the Company recorded an allowance for credit losses from receivables of \$2,329 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. During the nine months ended September 30, 2019, the Company recorded a foreign exchange loss of \$584,819 (during the nine months ended September 30, 2018 – gain of \$114,131).

Exchange rates utilized (USD to CAD):

<b>As at,</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Close rate	1.32	1.36
<b>For the nine months ended,</b>	<b>September 30, 2019</b>	<b>September 30, 2018</b>
	\$	\$
Average rate	1.33	1.29

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

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

#### Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. 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 \$5,671,997 at September 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 \$18,916,355 at September 30, 2019 (December 31, 2018 - \$10,778,632) including cash and cash equivalents of \$16,451,180 (December 31, 2018 - \$8,830,669).

<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	887,507	227,546	–	–
Notes payable	99,498	298,092	324,816	–
Long-term debt	547,886	1,659,610	8,032,646	–
Contingent consideration	272,708	853,777	226,413	–
Lease liabilities	149,164	452,613	1,209,079	67,513
<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	6,872	15,213	8,211	–
Long-term debt	113,896	162,439	241,424	–
Lease liabilities	27,459	68,721	119,386	2,042
<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	887,507	227,546	–	–
Notes payable	106,370	313,305	333,027	–
Long-term debt	661,782	1,822,049	8,274,070	–
Contingent consideration	272,708	853,777	226,413	–
Lease liabilities	176,623	521,334	1,328,465	69,555



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

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

#### 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 September 30, 2019, amounted to \$414,880 (December 31, 2018 - \$90,036) with fair value estimated to be \$406,483 (December 31, 2018 - \$90,036), respectively.

### 20 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 12 for the financial covenants.

### 21 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

September 30, 2019

(expressed in Canadian dollars)

### 21 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>September 30, 2019</b>	<b>September 30, 2019</b>	<b>September 30, 2019</b>	<b>September 30, 2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	972,660	1,002,688	14,475,832	16,451,180
Cash attributable to the Ad Fund	260,343	-	-	260,343
Trade and other receivables	167,744	1,473,522	82,963	1,724,229
Prepaid expenses	28,820	282,089	63,055	373,964
Notes receivable from franchisees	106,639	-	-	106,639
<b>Total current assets</b>	<b>1,536,206</b>	<b>2,758,299</b>	<b>14,621,850</b>	<b>18,916,355</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	308,241	-	-	308,241
Tangible assets	-	9,278,047	633,350	9,911,397
Intangible assets	18,231	9,039,802	111,908	9,169,941
Goodwill	-	7,340,878	-	7,340,878
Deferred tax asset	-	-	1,199,872	1,199,872
<b>Total assets</b>	<b>1,862,678</b>	<b>28,417,026</b>	<b>16,566,980</b>	<b>46,846,684</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	6,677	664,807	443,569	1,115,053
Deferred revenue	223,596	-	-	223,596
Current portion of long-term debt	-	2,207,496	-	2,207,496
Notes payable	-	397,590	-	397,590
Contingent consideration	-	1,126,485	-	1,126,485
Lease liabilities	-	469,385	132,392	601,777
<b>Total current liabilities</b>	<b>230,273</b>	<b>4,865,763</b>	<b>575,961</b>	<b>5,671,997</b>
<b>Non-current liabilities</b>				
Long-term debt	-	8,032,646	-	8,032,646
Deferred revenue	248,431	-	-	248,431
Notes payable	-	324,816	-	324,816
Contingent consideration	-	226,413	-	226,413
Lease liabilities	-	824,165	452,427	1,276,592
<b>Total liabilities</b>	<b>478,704</b>	<b>14,273,803</b>	<b>1,028,388</b>	<b>15,780,895</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 21 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
Income taxes payable	-	-	53,543	53,543
Deferred revenue	236,821	-	-	236,821
Current portion of long-term debt	-	1,253,723	-	1,253,723
Notes payable	-	281,813	-	281,813
Contingent consideration	-	253,180	-	253,180
<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
Notes payable	-	476,397	-	476,397
Contingent consideration	-	415,437	-	415,437
<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

September 30, 2019

(expressed in Canadian dollars)

### 21 Segment reporting (continued)

#### Geographic information

	September 30, 2019	December 31, 2018
<b>Canada</b>	<b>\$</b>	<b>\$</b>
Tangible assets	633,350	34,793
Intangible assets	111,908	–
<b>United States</b>		
Notes receivable from franchisees	414,880	89,946
Tangible assets	9,278,047	5,801,175
Intangible assets	9,058,033	5,185,990
Goodwill	7,340,878	4,812,448
<b>Total</b>		
Notes receivable from franchisees	414,880	89,946
Tangible assets	9,911,397	5,835,968
Intangible assets	9,169,941	5,185,990
Goodwill	7,340,878	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 September 30, 2019			
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	Total \$
Revenue	691,192	4,661,562	–	5,352,754
Direct costs	–	(3,229,496)	–	(3,229,496)
Selling, general and administrative	(416,516)	(137,081)	(440,625)	(994,222)
Depreciation – tangible assets	–	(631,413)	(56,945)	(688,358)
Operating income (loss)	274,676	663,572	(497,570)	440,678
Amortization – intangible assets	(4,882)	(295,170)	–	(300,052)
Foreign exchange gain	–	–	155,239	155,239
Loss on sale of assets	–	(13,058)	–	(13,058)
Interest expense	–	(169,281)	–	(169,281)
Interest income	7,299	–	41,733	49,032
Income tax (expense) recovery	(24,053)	(606)	14,993	(9,666)
Net income (loss)	253,040	185,457	(285,605)	152,892

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 21 Segment reporting (continued)

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

	<b>Franchising</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	655,754	2,977,170	–	3,632,924
Direct costs	–	(1,939,101)	–	(1,939,101)
Selling, general and administrative	(400,958)	(257,573)	(181,572)	(840,103)
Depreciation – tangible assets	(5,315)	(285,325)	(6,102)	(296,742)
Operating income (loss)	249,481	495,171	(187,674)	556,978
Amortization – intangible assets	(272)	(101,654)	–	(101,926)
Transaction recovery	–	13,018	–	13,018
Gain on sale of assets	–	8,030	–	8,030
Foreign exchange loss	–	–	(129,751)	(129,751)
Interest expense	–	(71,587)	–	(71,587)
Interest income	11	–	12,726	12,737
Income tax (expense) recovery	(69,338)	(19,323)	140,069	51,408
Net income (loss)	179,882	323,655	(164,630)	338,907

#### For the nine months ended September 30, 2019

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	2,123,231	14,002,172	–	16,125,403
Direct costs	–	(9,143,351)	–	(9,143,351)
Selling, general and administrative	(1,065,075)	(411,241)	(1,065,984)	(2,542,300)
Depreciation – tangible assets	–	(1,776,846)	(140,276)	(1,917,122)
Operating income (loss)	1,058,156	2,670,734	(1,206,260)	2,522,630
Amortization – intangible assets	(14,122)	(862,916)	–	(877,038)
Foreign exchange loss	–	–	(584,819)	(584,819)
Gain on sale of assets	–	79,958	–	79,958
Interest expense	–	(441,397)	–	(441,397)
Interest income	12,960	–	48,983	61,943
Income tax expense	(55,727)	(15,596)	(72,331)	(143,654)
Net income (loss)	1,001,267	1,430,783	(1,814,427)	617,623

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

September 30, 2019

(expressed in Canadian dollars)

### 21 Segment reporting (continued)

	For the nine months ended September 30, 2018			
	Franchising	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,963,497	8,407,706	–	10,371,203
Direct costs	–	(5,168,018)	–	(5,168,018)
Selling, general and administrative	(1,096,692)	(712,858)	(784,986)	(2,594,536)
Depreciation – tangible assets	(7,272)	(793,780)	(15,786)	(816,838)
Operating income (loss)	859,533	1,733,050	(800,772)	1,791,811
Amortization – intangible assets	(79,319)	(278,696)	–	(358,015)
Transaction recovery	–	30,858	–	30,858
Gain on sale of assets	–	8,030	–	8,030
Foreign exchange gain	–	–	114,131	114,131
Interest expense	–	(203,127)	–	(203,127)
Interest income	2,879	–	12,079	14,958
Income tax (expense) recovery	(130,195)	(48,148)	339,083	160,740
Net income (loss)	652,898	1,241,967	(335,479)	1,559,386

### 22 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. During the nine months ended September 30, 2019, the Company earned royalties, service fees, franchise fees and interest income of \$125,141 (nine months ended September 30, 2018 - \$112,079) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$985, which has an interest rate of 5% per annum.

### 23 Subsequent events

On October 1, 2019, the Company purchased the assets of the Proshred Chicago business from its franchisee. For the year ended December 31, 2019, the Chicago location earned approximately \$4 million USD in revenue and currently operates 14 trucks in the Chicagoland area. The consideration paid included cash and earnout.

On November 12, 2019, the bank credit facility was increased from USD\$9.5 million to USD\$10.0 million. In addition, certain financial covenants in the bank credit facilities were revised including an increase to the capital expenditures limit to USD\$2.9 million and an increase to the unfunded capital expenditures to USD\$640,000.

On November 12, 2019, the Company's lender advanced CAD\$6.6 million (USD\$5.01 million) on the USD\$10.0 million term loan with an amortization period of 84 months from the date of drawdown, bearing interest at a fixed rate of 3.50%.