

RediShred Capital Corp.

Consolidated Interim Financial Statements
June 30, 2014 and 2013

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

August 28, 2014

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, 2014.

RediShred Capital Corp.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	June 30, 2014 \$	December 31, 2013 \$
Assets		
Current assets		
Cash	346,348	348,998
Cash attributable to the Advertising Fund (note 3)	88,783	63,375
Trade receivables	574,634	448,982
Prepaid expenses	101,094	98,018
Notes receivable from franchisees	74,902	148,633
	<u>1,185,761</u>	<u>1,108,006</u>
Non-current assets		
Notes receivable from franchisees	208,000	166,112
Equipment (note 4)	2,093,181	2,195,083
Intangible assets (note 5)	3,724,346	4,059,247
Goodwill (notes 6)	1,492,142	1,455,467
	<u>7,517,669</u>	<u>7,875,909</u>
Total assets	<u>8,703,430</u>	<u>8,983,915</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	593,128	606,508
Current portion of notes payable	106,160	112,804
Current portion of long-term debt (note 7)	675,806	648,004
Deferred revenue	—	57,966
Contingent consideration	5,452	5,318
	<u>1,380,546</u>	<u>1,430,600</u>
Non-current liabilities		
Long-term debt (note 7)	7,307,002	7,476,411
Long-term notes payable	43,028	98,452
Deferred tax liability	192,114	214,350
Convertible debenture	340,265	337,882
	<u>7,882,409</u>	<u>8,127,095</u>
Total liabilities	<u>9,262,955</u>	<u>9,557,695</u>
Shareholders' Deficiency		
Capital Stock	8,585,808	8,585,808
Contributed surplus	372,547	372,479
Accumulated other comprehensive loss	(190,782)	(134,400)
Deficit	(9,327,098)	(9,397,667)
	<u>(559,525)</u>	<u>(573,780)</u>
Total liabilities and shareholders' deficiency	<u>8,703,430</u>	<u>8,983,915</u>

Commitments (note 12)

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Loss

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2014	2013	2014	2013
	\$	\$	\$	\$
Revenue (note 9)	1,549,344	1,060,860	3,034,924	1,980,215
Corporate operating locations expenses (note 10)	(856,088)	(622,823)	(1,665,524)	(1,238,574)
Selling, general and administrative expenses (note 11)	(584,436)	(350,450)	(925,287)	(726,785)
Income before interest, income taxes and other items	108,820	87,587	444,113	14,856
Gain on sale of assets	–	–	–	3,725
Interest expense	(194,861)	(169,731)	(405,175)	(336,157)
Interest income	2,570	1,304	4,719	3,949
(Loss) income before income taxes	(83,471)	(80,840)	43,657	(313,627)
Income tax recovery	13,387	12,560	26,912	24,929
Net (loss) income for the period	(70,084)	(68,280)	70,569	(288,698)
Other comprehensive (loss), net of tax				
Foreign currency translation (loss)	(815)	(13,944)	(56,382)	(48,520)
Comprehensive (loss) income for the period	(70,899)	(82,224)	14,187	(337,218)
Net (loss) income per share				
Basic and diluted	(0.00)	(0.00)	0.00	(0.01)
Weighted average number of commons shares outstanding – basic and diluted	28,884,658	28,884,658	28,884,658	28,884,658

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 9)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' deficiency \$
Balance – January 1, 2013	8,585,808	367,957	(71,561)	(9,357,200)	(474,996)
Net loss for the period	–	–	–	(40,467)	(40,467)
Other comprehensive loss					
Foreign currency translation loss	–	–	(62,839)	–	(62,839)
Comprehensive loss for the period	–	–	–	–	(103,306)
Stock-based compensation (note 8)	–	4,522	–	–	4,522
Balance – December 31, 2013	8,585,808	372,479	(134,400)	(9,397,667)	(573,780)
Net income for the period	–	–	–	70,569	70,569
Other comprehensive loss					
Foreign currency translation loss	–	–	(56,382)	–	(56,382)
Comprehensive income for the period	–	–	–	–	14,187
Stock-based compensation (note 8)	–	68	–	–	68
Balance – June 30, 2014	8,585,808	372,547	(190,782)	(9,327,098)	(559,525)

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

RediShred Capital Corp.
Consolidated Statements of Cash Flows
(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2014	2013	2014	2013
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net (loss) income for the period	(70,084)	(68,280)	70,569	(288,698)
Items not affecting cash				
Amortization of equipment and intangible assets	297,307	229,538	603,953	451,777
Stock-based compensation	45	64	68	129
Unrealized foreign currency loss (gain)	73,165	(166,946)	(185,090)	(290,107)
Gain on sale of assets	–	–	–	(3,725)
Income tax recovery	(13,387)	(12,560)	(26,912)	(24,929)
	<u>287,046</u>	<u>(18,184)</u>	<u>462,588</u>	<u>(155,553)</u>
Net change in non-cash working capital balances				
(Increase) decrease in trade receivables	(31,646)	445	(125,652)	40,722
Decrease (increase) in prepaid expenses	15,180	32,593	(3,077)	(7,463)
Decrease (increase) in notes receivable from franchisees	25,766	(492)	31,842	1,974
Increase (decrease) in deferred revenue	–	5,259	(57,966)	5,259
(Decrease) in accounts payable and accrued liabilities	(125,220)	(237,479)	(13,381)	(40,294)
	<u>171,126</u>	<u>(217,858)</u>	<u>294,354</u>	<u>(155,355)</u>
Net cash provided by (used in) operations				
Financing activities				
Repayment of long-term debt	(92,180)	(42,070)	(183,260)	(74,945)
Repayment on line of credit	–	(50,912)	–	(50,912)
Repayment of notes payable	(28,671)	(50,859)	(62,067)	(52,664)
	<u>(120,851)</u>	<u>(143,841)</u>	<u>(245,327)</u>	<u>(178,521)</u>
Investing activities				
Cash held by advertising fund	(22,422)	4,597	(25,408)	(17,061)
Sale of capital assets	–	53,200	–	53,200
Purchase of capital assets	(26,233)	(1,500)	(33,896)	(20,884)
	<u>(48,655)</u>	<u>56,297</u>	<u>(59,304)</u>	<u>15,255</u>
Effect of foreign exchange rate changes on cash				
	<u>(4,193)</u>	<u>6,840</u>	<u>7,627</u>	<u>10,605</u>
Net change in cash for the period	<u>(2,573)</u>	<u>(298,562)</u>	<u>(2,650)</u>	<u>(308,016)</u>
Cash – Beginning of period	<u>348,921</u>	<u>522,586</u>	<u>348,998</u>	<u>532,040</u>
Cash – End of period	<u>346,348</u>	<u>224,024</u>	<u>346,348</u>	<u>224,024</u>

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

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

1 Corporate information and nature of operations

Redishred Capital Corp. (“Redishred” or the “Company”) was incorporated under the Canada Business Corporations Act on October 18, 2006 and is domiciled in Canada. Redishred’s common shares are listed for trading on the TSX Venture Exchange under the symbol “KUT”. The registered address of the Company is 6559 Mississauga Road, Mississauga, Ontario, L5N 1A6.

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally (with the exception of Canada). Redishred operates the Proshred system under three business models, (1) franchising in the United States, (2) via direct ownership of shredding trucks and facilities in the United States and, (3) licensing internationally.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2013, 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, 2014. 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, 2013 and have been consistently applied in the preparation of these consolidated financial statements. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

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

The interim consolidated financial statements of the Company for the three and six months ended June 30, 2014 were authorized for issue in accordance with a resolution of the Directors on August 22, 2014.

3 Advertising fund

The Company manages an advertising fund (the “Ad Fund”) established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a percentage of each location’s revenue. In accordance with *IAS 18 – Revenue*, the revenue, expenses and cash flows of the Ad Fund are not included in the Company’s Statements of Comprehensive Loss because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at June 30, 2014, the cash attributable to the Ad Fund amounted to \$88,783 (December 31, 2013 - \$63,375).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

4 Equipment

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2013	126,199	59,485	154,563	423,992	922,918	92,901	52,710	1,832,768
Additions	1,994	3,411	19,734	279,995	642,292	–	–	947,426
Acquisitions	–	3,172	74,389	154,545	381,211	–	5,152	618,469
Sale of assets	–	–	(1,477)	(142,626)	(304,969)	(95,741)	(16,938)	(561,751)
Foreign exchange	4,063	590	12,841	35,895	128,079	2,840	20,659	204,967
As at December 31, 2013	132,256	66,658	260,050	751,801	1,769,531	–	61,583	3,041,879
Additions	3,640	–	24,998	–	10,562	–	–	39,200
Foreign exchange	1,843	1,877	12,643	20,348	40,392	–	1,650	78,663
As at June 30, 2014	137,739	68,535	297,691	772,149	1,820,485	–	63,233	3,159,742

Accumulated depreciation	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2013	96,061	53,473	39,147	109,059	233,196	23,183	11,254	565,373
Depreciation	10,119	4,929	39,883	75,768	172,887	2,535	12,289	318,410
Sale of assets	–	–	–	(28,886)	(58,487)	(26,778)	(6,676)	(120,827)
Foreign exchange	1,731	177	3,967	2,619	56,709	1,060	17,577	83,840
As at December 31, 2013	107,911	58,579	82,997	158,560	404,305	–	34,444	846,796
Depreciation	3,574	2,480	32,794	43,764	106,712	–	4,181	193,505
Sale of assets	–	–	1,349	–	–	–	–	1,349
Foreign exchange	3,099	1,570	247	5,422	13,695	–	968	25,001
As at June 30, 2014	114,584	62,629	117,387	207,746	524,712	–	39,593	1,066,651

Net book value								
As at December 31, 2013	24,345	8,079	177,053	593,241	1,365,226	–	27,139	2,195,083
As at June 30, 2014	23,155	5,906	180,304	564,403	1,295,773	–	23,640	2,093,181

The foreign exchange adjustment is a result of the translation of corporate equipment from US functional currency dollars to Canadian presentation dollars at June 30, 2014 and December 31, 2013. Depreciation related to the corporate stores is included in the statement of comprehensive loss in “corporate operating expenses.” Depreciation related to the franchising and licensing business is included in the statement of comprehensive loss in “selling, general & administrative expenses.”

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

4 Equipment (continued)

The Company has one shredding vehicle held under a finance lease arrangement. As of June 30, 2014, the net carrying amount of the related shredding vehicle, included as part of equipment is \$190,347. The finance lease liability (refer to note 7) is secured by the related asset held under the finance lease. Future minimum finance lease payments at June 30th were as follows:

June 30, 2014	Minimum lease payments due		Total
	Within 1 year \$	1 – 5 years \$	
Lease payments	30,205	144,510	174,715
Finance charges	(10,381)	(25,549)	(35,930)
Net present values	19,824	118,961	138,785

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

5 Intangible assets

Cost	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2013	2,365,361	978,000	1,672,500	845,666	1,029,722	6,891,249
Acquisitions	–	–	–	100,969	762,422	863,391
Removal of original franchise agreements	(173,321)	–	–	–	–	(173,321)
Foreign exchange	193,492	–	–	61,524	94,081	349,097
As at December 31, 2013	2,385,532	978,000	1,672,500	1,008,159	1,886,225	7,930,416
Foreign exchange	60,697	–	–	25,540	49,235	135,472
As at June 30, 2014	2,446,229	978,000	1,672,500	1,033,699	1,935,460	8,065,888

Accumulated amortization	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2013	1,424,251	562,681	1,088,452	343,235	130,388	3,549,007
Amortization	171,143	80,741	113,042	155,641	136,248	656,815
Reversal of previous impairment	(132,382)	(72,931)	(225,867)	–	–	(431,180)
Removal of original franchise agreements	(73,812)	–	–	–	–	(73,812)
Foreign exchange	128,107	–	–	28,731	13,501	170,339
As at December 31, 2013	1,517,307	570,491	975,627	527,607	280,137	3,871,169
Amortization	106,589	48,900	83,622	80,836	88,746	408,693
Foreign exchange	40,664	–	–	13,294	7,722	61,680
As at June 30, 2014	1,664,560	619,391	1,059,249	621,737	376,605	4,341,542

Net book value						
As at December 31, 2013	868,225	407,509	696,873	480,552	1,606,088	4,059,247
As at June 30, 2014	781,669	358,609	613,251	411,962	1,558,855	3,724,346

There were no additions to intangible assets during the three and six months ended June 30, 2014. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2014 and December 31, 2013. Amortization of reacquired franchise rights and customer relationships for the period is included in the statement of comprehensive loss in “corporate operating expenses” and amortization of the remaining intangible assets is included in the statement of comprehensive loss in “selling, general and administrative expenses.” The Company’s franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company’s franchises and corporately owned locations in the US.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill as at June 30, 2014 and December 31, 2013:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
	\$	\$
Opening balance	1,455,467	1,361,705
Acquisitions	–	–
Impairment of goodwill	–	–
Foreign currency translation	36,675	93,762
Closing balance	<u>1,492,142</u>	<u>1,455,467</u>

7 Long-term debt

As at June 30, 2014 and December 31, 2013 long-term debt is comprised of:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
	\$	\$
Line of credit (i)	5,967,465	5,982,184
Less: deferred financing charges	(3,684)	(22,086)
Line of credit net of deferred financing charges	5,963,781	5,960,098
Truck loans (ii)	660,869	755,656
Finance lease liability (iii)	138,785	144,434
Term loans (iv)	1,219,373	1,264,227
Total long-term debt	7,982,808	8,124,415
Less: current portion	(675,806)	(648,004)
Total	<u>7,307,002</u>	<u>7,476,411</u>

(i) Line of Credit

The line of credit was entered into on November 27, 2009 with a related party (see note 16) for a maximum amount of \$4 million. The line of credit was originally repayable on November 27, 2014, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets. Deferred financing charges in respect of this facility are charged to expense over the term of the facility. During the year ended December 31, 2011, the line of credit limit was increased to \$5.37 million. During the year ended December 31, 2012, the line of credit was increased to \$6.03 million. The other terms of the agreement remained unchanged upon increasing the line of credit. The Company has drawn from its line of credit in order to finance the purchase of its corporate locations including Syracuse, Albany, and Milwaukee in 2010 and New York City and Miami in 2012 and for general business purposes. In September of 2013, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional three years to November 27, 2017. The other terms of the agreement remained unchanged upon extending the facility's term.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

7 Long-term debt (continued)

(ii) Truck loans

On November 11, 2011, the Company entered into a loan and security agreement in the amount of US\$240,000, repayable with monthly blended payments of principal and interest of US\$5,690 maturing October 3, 2015. The loan bears interest at 8.14% per annum and is secured by two shredding vehicles with a carrying value of \$256,772 at June 30, 2014. The value of the loan on June 30, 2014 is \$93,762 (US\$85,989).

On July 5, 2012, the Company entered into a loan and security agreement in the amount of US\$121,128, repayable with monthly blended payments of principal and interest of US\$3,718 maturing July 5, 2015. The loan bears interest at 6.502% per annum and is secured by one shredding vehicle with a carrying value of \$82,181 at June 30, 2014. The value of the loan on June 30, 2014 is \$50,729 (US\$46,523).

On August 3, 2012, the Company entered into a loan and security agreement in the amount of US\$125,556, repayable with monthly blended payments of principal and interest of US\$2,545 maturing August 13, 2017. The loan bears interest at 8% per annum and is secured by one shredding vehicle with a carrying value of \$166,743 at June 30, 2014. The value of the loan on June 30, 2014 is \$92,913 (US\$85,210).

On January 3, 2013, the Company traded in one of its shredding vehicles for a larger shredding vehicle. The related loan and security agreement entered into on August 8, 2012, in the amount of US\$121,000, was replaced with a new loan and security agreement. The new loan and security agreement for US\$119,906 is repayable with monthly blended payments of principal and interest of US\$2,382 maturing January 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of \$224,197 at June 30, 2014. The value of the loan on June 30, 2014 is \$98,340 (US\$90,187).

On January 31, 2013, the Company entered into a loan and security agreement in the amount of US\$171,516, repayable with monthly blended payments of principal and interest of US\$3,407 maturing February 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of \$247,910 at June 30, 2014. The value of the loan on June 30, 2014 is \$143,517 (US\$131,619).

On October 24, 2013, the Company entered into a loan and security agreement in the amount of US\$187,950, repayable with monthly blended payments of principal and interest of US\$3,731 maturing October 24, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of \$189,918 at June 30, 2014. The value of the loan on June 30, 2014 is \$181,607 (US\$166,551).

iii) Finance lease liability

On November 15, 2013, the Company entered into a finance lease in the amount of US\$137,035, repayable with monthly blended payments of principal and interest of US\$2,296 with a final payment of US\$37,680, maturing December 20, 2018. The loan bears interest at 7.95% per annum and is secured by one shredding vehicle with a carrying value of \$190,347 at June 30, 2014. The value of the loan on June 30, 2014 is \$138,785 (US\$127,279).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

7 Long-term debt (continued)

iv) Term loans

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with related parties (see note 16):

- (a) A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (b) A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (c) A 4 year loan and security agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan bears interest at 9% per annum;
- (d) A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan bears interest at 9% per annum; and
- (e) A 4 year loan and security agreement in the amount of US\$500,000, repayable with monthly blended payments of principal and interest of US\$12,681 maturing August 5, 2017. The loan bears interest at 10% per annum and is secured by four shredding vehicles and two non-shredding vehicles with a carrying value of \$495,261 at June 30, 2014. The value of the loan on June 30, 2014 is \$448,797 (US\$411,589).

8 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

For the three and six months ended June 30, 2014 and the year ended December 31, 2013, there were no changes in issued common shares of the Company.

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

	Common stock		Warrants		Total
	Number	\$	Number	\$	
Balance, December 31, 2013					
and June 30, 2014	28,884,658	8,297,602	4,000,000	288,206	8,585,808

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

8 Capital stock (continued)

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three and six months ended June 30, 2014, was 28,884,658 (December 31, 2013 - 28,884,658).

d) Stock options

At June 30, 2014, the Company has 1,187,500 options outstanding (December 31, 2013 – 1,462,500) and a weighted average exercise price of \$0.18 (December 31, 2013 - \$0.18). During the six months ended June 30, 2014, there have been 280,000 stock options that expired (for the six months ended June 30, 2013 – 267,500). There have been 5,000 stock options granted during the six months ended June 30, 2014 (for the six months ended June 30, 2013 – nil). The net stock compensation charge, for the six months ended June 30, 2014, after adjusting for stock option forfeitures, amounted to \$68 (for the six months ended June 30, 2013 – \$129).

e) Warrants

The Company issued two tranches of warrants in 2009. The first tranche of 3,000,000 warrants were issued in connection with the private placement and the second tranche of 1,000,000 warrants related to the line of credit obtained. In connection with the line of credit, the warrants were issued on April 28, 2010 when the line of credit was first drawn upon in accordance with the line of credit agreement. These warrants were recorded in the consolidated financial statements in 2009 as performance by the counterparty was complete at that date. The fair value of these warrants has been recorded as deferred financing charges and is being amortized into income over the term of the facility and is also subject to a two-year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the consolidated statements of cash flows. Tranches 1 and 2 of warrants expire on November 27, 2014 and December 23, 2014, respectively.

f) Convertible debentures

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

9 Revenue

The revenue earned by the Company for the three and six months ended June 30, 2014 and 2013 is broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2014	2013	2014	2013
	\$	\$	\$	\$
Royalties	285,192	258,469	543,249	490,818
Franchise fees	–	–	65,230	–
License fees	1,038	1,394	5,597	2,559
Shredding services	1,035,174	644,078	1,987,475	1,191,659
Sale of paper products	227,940	145,506	433,373	272,541
Rental revenue	–	11,413	–	22,638
Total revenue	1,549,344	1,060,860	3,034,924	1,980,215

10 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three and six months ended June 30, 2014 and 2013 are broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2014	2013	2014	2013
	\$	\$	\$	\$
Shredding expenses	207,735	167,752	366,732	316,928
Employee wages expense	296,517	224,314	582,596	441,534
Employee benefit expense	61,587	48,749	127,828	89,208
Office and administration expense	130,043	61,436	259,321	149,273
Depreciation – equipment	72,844	58,743	167,590	122,519
Amortization – intangible assets	87,362	61,829	161,457	119,112
Total corporate operating expenses	856,088	622,823	1,665,524	1,238,574

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

11 Selling, general and administrative expenses by nature

The selling, general and administrative expenses incurred by the Company for the three and six months ended June 30, 2014 and 2013 are broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2014	2013	2014	2013
	\$	\$	\$	\$
Employee wages expense	158,466	170,766	345,094	363,713
Employee benefits expense	15,721	19,919	34,983	32,830
Share-based compensation	45	64	68	129
Professional fees	38,863	54,293	83,623	84,307
Technology	62,212	48,966	117,546	98,689
Rent and office expense	16,394	24,262	44,269	48,363
Selling and marketing	25,311	13,189	72,862	38,402
Amortization of deferred financing charges	1,842	5,522	3,684	11,043
Amortization – intangible assets	135,259	110,470	271,223	219,987
Foreign exchange loss (gain)	68,311	(160,444)	(136,968)	(278,918)
Other	62,012	63,443	88,903	108,240
Total selling, general and administrative expenses	584,436	350,450	925,287	726,785

Compensation of key management

Included in employee wages and benefits 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>	
	2014	2013	2014	2013
	\$	\$	\$	\$
Wages and benefits	117,125	149,796	266,189	303,866
Share-based compensation	45	32	68	64
Total	117,170	149,828	266,257	303,930

Compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Vice President of Operations, Executive Vice President and former President.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

12 Commitments

Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2018. Additionally, the Company leases facilities in Syracuse, which expires on August 31, 2015, Milwaukee, which expires on August 31, 2017, New York City, which expires on September 30, 2015 and Charlotte, which expires on April 30, 2017. Certain contracts include renewal options for various periods of time. For the six months ended June 30, 2014, the Company incurred \$106,125 (six months ended June 30, 2013 - \$138,153) in lease payments as an expense included in 'selling, general and administrative expenses' and 'corporate operating expenses'.

Non-cancellable operating lease rentals are payable as follows:

	\$
Less than 1 year	199,369
Between 1 and 5 years	<u>382,085</u>
Total	<u>581,454</u>

13 Financial instruments and fair values

The Company has various financial assets that consist of: cash, trade receivables and notes receivable from franchisees. The Company's financial liabilities include accounts payable, accrued liabilities, notes payable, long-term debt and convertible debenture liability.

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

Interest rate risk

The Company's cash is subject to cash flow risk, as it earns interest at prevailing and fluctuating market rates. The Company has a fixed rate on notes receivable from franchisees ranging from 4.25% to 8.25% per annum, and the line of credit facility has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 6.502% to 8.14% per annum. The loans in connection with the Charlotte purchase have fixed interest rates of 9% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

13 Financial instruments and fair values (continued)

Credit risk

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

Receivables related to franchising and licensing

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of June 30, 2014, 6 franchisees accounted for 59% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2013 - 6 franchises accounted for 79%). For the six months ended June 30, 2014, 3 franchisees accounted for 29% of the Company's revenues related to franchising and licensing (for the six months ended June 30, 2013 - 3 franchisees accounted for 29%). As of June 30, 2014, 1% of accounts receivable and notes receivable in this category were over 90 days old (December 31, 2013 – nil).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At June 30, 2014 and December 31, 2013, no customer accounted for more than 10% of the accounts receivable balance. For the six months ended June 30, 2014 and for the year ended December 31, 2013, no customer accounted for more than 10% of the Company's revenues in this category. As of June 30, 2014, 5% of accounts receivable in this category were over 90 days old (December 31, 2013 – 2%). The Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

Since the Company operates internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar (CAD) and the US dollar (USD) exchange rates could have a potentially significant impact on the Company's results of operations. If there were a foreign exchange rate variation of -5% (depreciation of the USD) or a +5% (appreciation of the USD) against the CAD, from an average rate of USD\$1.00 = CAD\$1.0963, the total impact to net loss would be a decrease/increase of approximately \$58,000.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

13 Financial instruments and fair values (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of \$9.3 million at June 30, 2014. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The Company does not have any financial covenants to comply with.

At June 30, 2014, the Company has current assets of \$1,185,761 (December 31, 2013 - \$1,108,006). The current liabilities of \$1,380,546 at June 30, 2014 (December 31, 2013 - \$1,430,600), are due to be settled within one year from the date of the Statement of Financial Position. At June 30, 2014, the Company has cash of \$346,348.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

13 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	593,128	–	–	–
Notes payable	26,318	79,842	43,028	–
Contingent consideration	5,452	–	–	–
Convertible debentures	–	–	340,265	–
Long-term debt	102,979	572,356	7,307,474	–

Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	2,525	4,703	836	–
Convertible debentures	–	28,125	84,375	–
Long-term debt	61,952	393,758	2,029,993	–

Liquidity risk

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	593,128	–	–	–
Notes payable	28,843	84,545	43,864	–
Contingent consideration	5,452	–	–	–
Convertible debentures	–	28,125	424,640	–
Long-term debt	164,931	966,114	9,337,467	–

Fair value of financial instruments

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

These 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, 2014, amounted to \$282,902 (December 31, 2013 - \$314,744) with fair value estimated to amount to \$244,598 (December 31, 2013 - \$306,286), respectively.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

14 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.

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	25,147	210,780	110,421	346,348
Cash attributable to the Ad Fund	88,783	–	–	88,783
Trade receivables	96,573	462,331	15,730	574,634
Prepaid expenses	24,554	46,110	30,430	101,094
Notes receivable from franchisees	74,902	–	–	74,902
Total current assets	309,959	719,221	156,581	1,185,761
Non-current assets				
Notes receivable from franchisees	208,000	–	–	208,000
Equipment	–	2,093,181	–	2,093,181
Intangible assets	781,665	1,970,818	971,863	3,724,346
Goodwill	–	1,492,142	–	1,492,142
Total assets	1,299,624	6,275,362	1,128,444	8,703,430
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	132,655	258,080	202,393	593,128
Current portion of notes payable	5,777	100,383	–	106,160
Current portion of long-term debt	–	675,806	–	675,806
Contingent consideration	–	5,452	–	5,452
Total current liabilities	138,432	1,039,721	202,393	1,380,546
Non-current liabilities				
Long-term debt	–	7,307,002	–	7,307,002
Current portion of notes payable	–	43,028	–	43,028
Convertible debenture	–	–	340,265	340,265
Deferred tax liability	192,114	–	–	192,114
Total liabilities	330,546	8,389,751	542,658	9,262,955

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

15 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	December 31, 2013	December 31, 2013	December 31, 2013	December 31, 2013
ASSETS	\$	\$	\$	\$
Current assets	100,857	140,902	107,239	348,998
Cash				
Cash attributable to the Ad Fund	63,375	—	—	63,375
Trade receivables	74,980	357,917	16,085	448,982
Prepaid expenses	27,128	46,482	24,408	98,018
Notes receivable from franchisees	148,633	—	—	148,633
Total current assets	414,973	545,301	147,732	1,108,006
Non-current assets				
Notes receivable from franchisees	166,112	—	—	166,112
Equipment	—	2,195,083	—	2,195,083
Intangible assets	866,422	2,088,437	1,104,388	4,059,247
Goodwill	—	1,455,467	—	1,455,467
Total assets	1,447,507	6,284,288	1,252,120	8,983,915
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	119,022	235,562	251,924	606,508
Current portion of notes payable	9,271	103,533	—	112,804
Current portion of long-term debt	—	648,004	—	648,004
Contingent consideration	—	5,318	—	5,318
Deferred revenue	57,966			57,966
Total current liabilities	186,259	992,417	251,924	1,430,600
Non-current liabilities				
Long-term debt	—	7,476,411	—	7,476,411
Long- portion of notes payable	—	98,452	—	98,452
Convertible debenture	—	—	337,882	337,882
Deferred tax liability	214,350	—	—	214,350
Total liabilities	400,609	8,567,280	589,806	9,557,695

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

15 Segment reporting (continued)

Geographic information

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Canada	\$	\$
Equipment	–	–
Intangible assets	971,863	1,104,388
United States		
Notes receivable from franchisees	282,902	314,745
Equipment	2,093,181	2,195,083
Intangible assets	2,752,483	2,954,859
Goodwill	1,492,142	1,455,467
Total		
Notes receivable from franchisees	282,902	314,745
Equipment	2,093,181	2,195,083
Intangible assets	3,724,346	4,059,247
Goodwill	1,492,142	1,455,467

Revenue

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

For the three months ended,	<u>June 30, 2014</u>	<u>June 30, 2013</u>
	\$	\$
United States		
Royalties	285,192	258,469
Franchise fees	–	–
Shredding services	1,035,174	644,078
Sale of paper products	227,940	145,506
Rental revenue	–	11,413
Middle East		
License fees	1,038	1,394

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

15 Segment reporting (continued)

Geographic information (continued)

For the six months ended,	June 30, 2014	June 30, 2013
	\$	\$
United States		
Royalties	543,249	490,818
Franchise fees	65,230	–
Shredding services	1,987,475	1,198,659
Sale of paper products	433,373	272,541
Rental revenue	–	22,638
Middle East		
License fees	5,597	2,559

Net income (loss) by operating segment

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

	For the three months ended June 30, 2014			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	286,230	1,263,114	–	1,549,344
Direct costs	–	(695,882)	–	(695,882)
Corporate overhead	(155,375)	(105,600)	(118,049)	(379,024)
Depreciation and amortization	(137,101)	(160,206)	–	(297,307)
Foreign exchange loss	–	–	(68,311)	(68,311)
Interest expense	–	(186,638)	(8,223)	(194,861)
Interest income	2,570	–	–	2,570
Income tax recovery	13,387	–	–	13,387
Net income (loss) from operations	9,711	114,788	(194,583)	(70,084)

	For the three months ended June 30, 2013			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	259,863	800,997	–	1,060,860
Direct costs	–	(501,916)	–	(501,916)
Corporate overhead	(133,997)	(105,221)	(156,022)	(395,240)
Depreciation and amortization	(115,991)	(120,570)	–	(236,561)
Foreign exchange gain	–	–	160,444	160,444
Interest expense	–	(161,507)	(8,224)	(169,731)
Interest income	1,304	–	–	1,304
Income tax recovery	12,560	–	–	12,560
Net income (loss) from operations	23,811	(88,289)	(3,802)	(68,280)

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

15 Segment reporting (continued)

Net income (loss) by operating segment (continued)

	For the six months ended June 30, 2014			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	614,076	2,420,848	–	3,034,924
Direct costs	–	(1,336,477)	–	(1,336,477)
Corporate overhead	(368,625)	(222,675)	(196,048)	(787,348)
Depreciation and amortization	(274,907)	(329,047)	–	(603,954)
Foreign exchange gain	–	–	136,968	136,968
Interest expense	–	(388,730)	(16,445)	(405,175)
Interest income	4,719	–	–	4,719
Income tax recovery	26,912	–	–	26,912
Net income (loss) from operations	2,175	143,919	(75,525)	70,569

	For the six months ended June 30, 2013			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	493,377	1,486,838	–	1,980,215
Direct costs	–	(996,942)	–	(996,942)
Corporate overhead	(255,964)	(202,642)	(316,068)	(774,674)
Depreciation and amortization	(231,030)	(241,631)	–	(472,661)
Foreign exchange gain	–	–	278,918	278,918
Interest expense	–	(319,712)	(16,445)	(336,157)
Interest income	3,949	–	–	3,949
Gain on sale of assets	–	3,725	–	3,725
Income tax recovery	24,929	–	–	24,929
Net income (loss) from operations	35,261	(270,364)	(53,595)	(288,698)

16 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. At June 30, 2014, there is no accounts receivable balance due from this franchise (December 31, 2013 - \$727). During the six months ended June 30, 2014, the Company earned royalty and service fees amounting to \$48,071 (2013 - \$42,801) from this franchise.

The Company has a line of credit facility with a related party entity, the Company's largest shareholder, for a maximum of \$6.03 million, repayable on November 27, 2017, bearing interest at a fixed rate of 10% per annum (refer to note 7). The Company has drawn from its line of credit in order to finance the purchase of its corporate locations including Syracuse, Albany, Milwaukee in 2010 and New York City and Miami in 2012 as well as for general business purposes.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

(expressed in Canadian dollars)

16 Related party balances and transactions (continued)

Included in selling, general and administrative expenses for the six months ended June 30, 2014 are insurance premium amounts of \$9,184 (June 30, 2013 - \$9,275) paid to an insurance brokerage firm, managed by a Director of the Company.

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

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with certain members of the Company's Board of Directors and their affiliates:

- (a) A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (b) A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (c) A 4 year loan and security agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan bears interest at 9% per annum;
- (d) A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan bears interest at 9% per annum; and
- (e) A 4 year loan and security agreement in the amount of US\$500,000, repayable with monthly blended payments of principal and interest of US\$12,681 maturing August 5, 2017. The loan bears interest at 10% per annum and is secured by four shredding vehicles and two non-shredding vehicles with a carrying value of \$495,261 at June 30, 2014. The value of the loan on June 30, 2014 is \$448,797 (US\$411,589).