

RediShred Capital Corp.

Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

November 29, 2018

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended September 30, 2018.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at September 30, 2018 and December 31, 2017

(expressed in Canadian dollars)

	September 30, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	12,305,473	2,245,533
Cash attributable to the Advertising Fund (note 3)	183,066	193,776
Trade and other receivables (note 4)	1,211,361	972,987
Prepaid expenses	161,142	160,791
Notes receivable	111,258	84,988
	<u>13,972,300</u>	<u>3,658,075</u>
Non-current assets		
Notes receivable	1,727	19,238
Equipment (note 5)	4,062,594	3,772,234
Intangible assets (note 6)	2,466,091	1,878,120
Goodwill (note 7)	1,860,741	1,720,437
Deferred tax asset	853,234	457,728
	<u>9,244,387</u>	<u>7,847,757</u>
Total assets	<u>23,216,687</u>	<u>11,505,832</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	970,796	913,594
Current income taxes payable	60,346	51,193
Current portion of notes payable (note 8)	71,294	122,357
Current portion of contingent consideration (note 9)	105,103	44,790
Current portion of long-term debt (note 10)	1,053,664	1,114,882
	<u>2,261,203</u>	<u>2,246,816</u>
Non-current liabilities		
Long-term notes payable (note 8)	7,820	26,206
Long-term contingent consideration (note 9)	30,144	20,105
Long-term debt (note 10)	2,400,761	2,522,261
	<u>2,438,725</u>	<u>2,568,572</u>
Total liabilities	<u>4,699,928</u>	<u>4,815,388</u>
Shareholders' Equity		
Capital stock (note 11)	24,275,022	14,062,379
Contributed surplus	871,422	647,283
Accumulated other comprehensive loss	(831,285)	(747,323)
Deficit	(5,798,400)	(7,271,895)
	<u>18,516,759</u>	<u>6,690,444</u>
Total liabilities and shareholders' equity	<u>23,216,687</u>	<u>11,505,832</u>
Commitments (note 16)		

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2018 and 2017

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue (note 12)	3,520,097	2,834,413	10,022,019	8,570,631
Corporate operating locations expenses (note 13)	(1,939,101)	(1,397,223)	(5,168,018)	(4,209,748)
Selling, general and administrative expenses (note 11(d) and 14)	(763,884)	(572,594)	(2,331,243)	(1,990,216)
Income before depreciation	817,112	864,596	2,522,758	2,370,667
Depreciation – tangible assets	(296,742)	(255,150)	(816,838)	(707,369)
Operating income	520,370	609,446	1,705,920	1,663,298
Interest expense	(71,587)	(78,156)	(203,127)	(284,489)
Interest income	12,737	1,795	14,958	6,125
Income before the following	461,520	533,085	1,517,751	1,384,934
Amortization – intangible assets	(101,926)	(244,454)	(358,015)	(733,953)
Transaction recovery	13,018	–	30,858	–
Gain on sale of assets (note 5)	8,030	–	8,030	–
Foreign exchange (loss) gain	(129,751)	(335,035)	114,131	(367,553)
Income (loss) before income taxes	250,891	(46,404)	1,312,755	283,428
Income tax recovery (expense) (note 15)	51,408	(21,712)	160,740	(72,785)
Net income (loss) for the period	302,299	(68,116)	1,473,495	210,643
Foreign currency translation loss	(36,478)	(5,227)	(83,962)	(259,912)
Comprehensive income (loss) for the period	265,821	(73,343)	1,389,533	(49,269)
Net income (loss) per share				
Basic and diluted	0.005	(0.001)	0.028	0.004
Weighted average number of common shares outstanding – basic	60,695,251	47,190,739	52,043,427	45,541,310
Weighted average number of common shares outstanding – diluted	61,881,623	48,766,586	53,159,841	46,878,997

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the three and nine months ended September 30, 2018 and 2017

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 11)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity \$
Balance – January 1, 2017	8,590,995	512,518	(496,250)	(8,088,745)	518,518
Net income for the period	–	–	–	210,643	210,643
Foreign currency translation loss	–	–	(259,912)	–	(259,912)
Comprehensive income for the period					(49,269)
Issue of shares	4,743,628	(153,262)	–	–	4,590,366
Issue of warrants	670,793	–	–	–	670,793
Stock-based compensation	–	287,322	–	–	287,322
Balance – September 30, 2017	14,005,416	646,578	(756,162)	(7,878,102)	6,017,730
Balance – January 1, 2018	14,062,379	647,283	(747,323)	(7,271,895)	6,690,444
Net income for the period	–	–	–	1,473,495	1,473,495
Foreign currency translation loss	–	–	(83,962)	–	(83,962)
Comprehensive income for the period					1,389,533
Issue of shares (note 11)	10,212,643	(4,665)	–	–	10,207,978
Stock-based compensation (note 11)	–	228,804	–	–	228,804
Balance – September 30, 2018	24,275,022	871,422	(831,285)	(5,798,400)	18,516,759

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, 2018 and 2017

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	302,299	(68,116)	1,473,495	210,643
Items not affecting cash				
Amortization of tangible and intangible assets	398,668	502,978	1,174,854	1,450,812
Stock-based compensation	18,793	10,523	228,804	287,322
Unrealized foreign currency (gain) loss	(35,552)	277,524	(356,454)	433,167
Transaction recovery	(21,048)	–	(38,888)	–
Income tax recovery	(149,865)	417	(395,639)	(27,420)
	513,295	723,326	2,086,172	2,354,524
Net change in non-cash working capital balances				
(Increase) decrease in trade receivables	(90,585)	51,528	(173,544)	(161,320)
Decrease (increase) in prepaid expenses	39,586	(3,313)	3,619	(35,596)
Increase (decrease) in accounts payable and accrued liabilities	125,428	(111,529)	94,262	(321,736)
(Decrease) in income taxes payable	(239)	–	(44,219)	–
Net cash provided by operations	587,485	660,012	1,966,290	1,835,872
Financing activities				
Borrowings from long-term debt	280,390	1,996,340	571,126	2,688,163
Repayment of long-term debt	(271,022)	(2,357,897)	(804,946)	(6,470,598)
Issuance of capital stock (net of fees)	10,274,806	54,000	10,277,306	4,908,966
Payment of contingent considerations	(27,529)	–	(49,861)	–
Repayment of (increase in) notes receivable from franchisees	27,437	20,720	(6,022)	66,100
(Increase in) repayment of notes payable	(33,351)	(28,523)	(99,150)	(63,363)
	10,250,731	(315,360)	9,888,453	1,129,268
Investing activities				
Acquisitions	1,200	(42,949)	(1,205,066)	(1,148,905)
Cash held by advertising fund	(683)	52,613	15,798	46,784
Purchase of capital assets	(324,448)	(8,150)	(738,951)	(1,154,171)
Proceeds from sale of assets	5,248	(4,183)	98,899	273,916
	(318,683)	(2,669)	(1,829,320)	(1,982,376)
Effect of foreign exchange rate changes on cash	(33,975)	(106,795)	34,517	(189,427)
Net change in cash for the period	10,485,558	235,188	10,059,940	793,337
Cash – Beginning of period	1,819,915	1,569,592	2,245,533	1,011,443
Cash – End of period	12,305,473	1,804,780	12,305,473	1,804,780

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under two business models, (1) franchising in the United States, and (2) via direct ownership of shredding trucks and facilities in seven locations in the United States as of September 30, 2018.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2017, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at September 30, 2018. Together, Redishred and its subsidiaries are referred to as “the Company.”

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

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

The interim consolidated financial statements of the Company for the three and nine months ended September 30, 2018 were authorized for issue in accordance with a resolution of the Directors on November 29, 2018.

3 Advertising fund

The Company manages an advertising fund (the “Ad Fund”) established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a level of sales of each location’s revenue. In accordance with *IAS 18 – Revenue*, the revenue and expenses of the Ad Fund are recorded net in the Company’s statements of comprehensive income because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at September 30, 2018, the cash attributable to the Ad Fund amounted to \$183,066 (December 31, 2017 - \$193,776).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

4 Trade and other receivables

Trade receivables include receivables from franchisees and shredding and recycling customers. Other receivables include receivables related to Harmonized sales tax (“HST”) refunds. The trade and other receivables as at September 30, 2018 and December 31, 2017 are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	\$	\$
Trade receivables	1,179,383	975,206
Other receivables	34,255	–
Less: Allowance for doubtful accounts	(2,277)	(2,219)
Trade receivables – net	<u>1,211,361</u>	<u>972,987</u>

5 Equipment

Cost	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles – box	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2017	206,455	106,935	560,763	1,194,219	2,890,634	78,453	5,037,459
Additions	44,901	40,284	71,033	258,590	723,099	24,446	1,162,353
Sale of assets	(219)	(343)	–	(70,212)	(178,490)	–	(249,264)
Acquisitions	3,325	3,325	83,339	227,656	447,574	13,300	778,519
Foreign exchange	(5,446)	(1,457)	(36,307)	(100,836)	(241,251)	(4,673)	(389,970)
As at December 31, 2017	249,016	148,744	678,828	1,509,417	3,641,566	111,526	6,339,097
Additions	18,412	12,737	95,999	206,942	405,326	–	739,416
Sale of assets	–	–	–	–	–	(8,141)	(8,141)
Acquisitions	–	–	48,375	78,690	108,360	43,215	278,640
Foreign exchange	3,145	827	18,033	42,328	100,077	2,619	167,029
As at September 30, 2018	270,573	162,308	841,235	1,837,377	4,255,329	149,219	7,516,041

Accumulated depreciation	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2017	170,128	92,033	351,158	310,950	821,346	69,297	1,814,912
Depreciation	39,825	13,953	94,168	234,065	545,109	19,107	946,227
Sale of assets	–	–	–	(21,987)	(51,278)	–	(73,265)
Foreign exchange	(3,627)	(868)	(22,929)	(26,415)	(63,527)	(3,645)	(121,011)
As at December 31, 2017	206,326	105,118	422,397	496,613	1,251,650	84,759	2,566,863
Depreciation	26,553	13,835	82,470	199,499	468,784	25,697	816,838
Foreign exchange	2,087	458	11,300	16,654	37,340	1,907	69,746
As at September 30, 2018	234,966	119,411	516,167	712,766	1,757,774	112,363	3,453,447

Net book value

As at December 31, 2017	42,690	43,626	256,431	1,012,804	2,389,916	27,767	3,772,234
As at September 30, 2018	35,607	42,897	325,068	1,124,611	2,497,555	36,856	4,062,594

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

5 Equipment (continued)

The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar functional currency in the acquiring company to Canadian presentation dollars at September 30, 2018 and December 31, 2017. During the three months ended September 30, 2018, the Company recorded a gain on sale of assets of \$8,030 related to the sale of a vehicle.

6 Intangible assets

Cost	Franchise	Proshred	Trademarks	Computer	Re-acquired	Customer	Total
	agreements	system	& intellectual property	software	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2017	3,119,639	978,000	1,672,500	–	1,272,879	2,738,080	9,781,098
Acquisitions	–	–	–	–	45,661	598,500	644,161
Removal of original franchise agreement	(220,759)	–	–	–	–	–	(220,759)
Foreign exchange	(248,352)	–	–	–	(83,718)	(207,612)	(539,682)
As at December 31, 2017	2,650,528	978,000	1,672,500	–	1,234,822	3,128,968	9,664,818
Acquisitions (note 5)	–	–	–	–	–	967,500	967,500
Additions	–	–	–	20,640	–	–	20,640
Sale of assets (note 5)	–	–	–	–	–	(90,300)	(90,300)
Foreign exchange	340,436	–	–	–	52,064	82,804	475,304
Fully depreciated	(2,990,964)	(978,000)	(1,672,500)	–	(1,286,886)	–	(6,928,350)
As at September 30, 2018	–	–	–	20,640	–	4,088,972	4,109,612

Accumulated amortization	Franchise	Proshred	Trademarks	Computer	Re-acquired	Customer	Total
	agreements	system	& intellectual property	software	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2017	2,782,612	863,891	1,477,365	–	1,174,277	1,108,274	7,406,419
Amortization	187,035	97,800	167,244	–	131,269	295,602	878,950
Removal of original franchise agreement	(196,505)	–	–	–	–	–	(196,505)
Foreign exchange	(156,852)	–	–	–	(74,950)	(70,364)	(302,166)
As at December 31, 2017	2,616,290	961,691	1,644,609	–	1,230,596	1,333,512	7,786,698
Amortization	32,584	16,309	27,891	–	3,743	275,010	355,537
Foreign exchange	342,090	–	–	–	52,547	34,999	429,636
Fully depreciated	(2,990,964)	(978,000)	(1,672,500)	–	(1,286,886)	–	(6,928,350)
As at September 30, 2018	–	–	–	–	–	1,643,521	1,643,521

Net book value	Franchise	Proshred	Trademarks	Computer	Re-acquired	Customer	Total
	agreements	system	& intellectual property	software	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$	\$
As at December 31, 2017	34,238	16,309	27,891	–	4,226	1,795,456	1,878,120
As at September 30, 2018	–	–	–	20,640	–	2,445,451	2,466,091

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at September 30, 2018 and December 31, 2017. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's franchise agreements, customer lists, computer software 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

September 30, 2018

(expressed in Canadian dollars)

7 Goodwill

The following table presents goodwill as at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	\$	\$
Opening balance	1,720,437	1,837,398
Acquisition	95,460	–
Foreign currency translation	44,844	(116,961)
Closing balance	1,860,741	1,720,437

8 Notes payable

As at September 30, 2018, notes payable is comprised of:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Note value	Maturity
December 31, 2015	US\$100,000	US\$2,997	5.00%	CAD\$11,437 US\$8,866	December 5, 2018
March 31, 2017	US\$125,000	US\$5,208	0.00%	CAD\$47,031 US\$36,458	April 1, 2019
April 2, 2018	US\$20,000	US\$880	5.25%	CAD\$20,646 US\$16,004	April 4, 2020

(1) Blended monthly payments of principal and interest.

9 Contingent consideration

The Company has recorded contingent consideration liabilities as part of various acquisitions that were conducted. The contingent consideration liabilities are paid if certain sales levels from the customers purchased are achieved over a period of time from the date of acquisition.

As of September 30, 2018, contingent consideration is comprised of:

Acquisition	Origination	Initial amount	Balance	Maturity
Recordshred	December 31, 2015	US\$50,000	CAD\$13,437 US\$10,417	December 31, 2018
North Virginia	March 31, 2017	US\$98,000	CAD\$25,060 US\$19,426	March 31, 2021
Shred Con	April 2, 2018	US\$50,000	CAD\$32,250 US\$25,000	April 2, 2019
On Guard	June 8, 2018	US\$50,000	CAD\$64,500 US\$50,000	December 8, 2018

During the nine month ended September 30, 2018, the Company recorded a transaction recovery of \$30,858 related to the Buffalo and North Virginia acquisitions. In both instances the contingent consideration was not earned due to sales levels from particular customers not being attained.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

10 Long-term debt

As at September 30, 2018 and December 31, 2017 long-term debt is comprised of:

	September 30, 2018	December 31, 2017
	\$	\$
Bank indebtedness (i)	1,538,503	1,839,515
Less: deferred financing charges	(124,523)	(148,887)
Net bank indebtedness	1,413,980	1,690,628
Truck loans (ii)	1,804,631	1,628,831
Finance lease liability (iii)	235,814	317,684
Total long-term debt	3,454,425	3,637,143
Less: current portion	(1,053,664)	(1,114,882)
Total long-term debt	2,400,761	2,522,261

(i) Bank indebtedness

The Company has the following secured senior credit facilities:

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

As at September 30, 2018, Bank of Montreal has advanced \$2 million on the non-revolving term loan, of which the current balance is \$1,538,503, at September 30, 2018. The Company has not received an advance on the operating demand loan as at September 30, 2018 (no advance – September 30, 2017).

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

The credit facilities are secured by a general security agreement over all present and future assets of the Company and shares of each subsidiary held by the Company.

The bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and to meet certain financial thresholds. In particular, the facility contains covenants that require the Company to maintain the following:

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

The ratio covenants are measured at the end of each quarter on a trailing 12 month basis. As at September 30, 2018, the Company was in compliance with all of the banking covenants.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

10 Long-term debt (continued)

The Company has also established a \$1 million USD line of credit for the purchase of shredding vehicles with BMO Transportation Finance in the United States. The line of credit is open for one year, until October 2018 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used. The Company has received an advance of US\$442,733 during the nine months ended September 30, 2018. The Company has US\$557,267 available for use on the line of credit as at September 30, 2018.

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as of September 30, 2018:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Maturity
October 24, 2013	US\$187,950	US\$3,731	7.00%	CAD\$97,550	CAD\$4,785 US\$3,709	October 24, 2018
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$200,091	CAD\$115,090 US\$89,217	June 23, 2020
July 22, 2015	US\$300,000	US\$7,283	7.50%	CAD\$201,497	CAD\$90,766 US\$70,361	July 22, 2019
December 22, 2015	US\$80,000	US\$2,480	7.50%	CAD\$3,581	CAD\$9,480 US\$7,349	December 5, 2018
July 5, 2016	US\$176,546	US\$3,904	6.40%	CAD\$172,213	CAD\$113,079 US\$87,658	September 5, 2020
September 5, 2016	US\$381,572	US\$7,392	5.95%	CAD\$493,271	CAD\$305,324 US\$236,685	August 5, 2021
March 22, 2017	US\$170,581	US\$3,282	5.71%	CAD\$281,500	CAD\$160,603 US\$124,499	March 22, 2022
May 3, 2017	US\$230,956	US\$4,465	5.99%	CAD\$269,438	CAD\$227,048 US\$176,006	May 5, 2022
May 4, 2017	US\$236,456	US\$4,549	5.71%	CAD\$275,941	CAD\$232,302 US\$179,950	May 4, 2022
April 3, 2018	US\$227,137	US\$4,331	5.39%	CAD\$286,575	CAD\$271,504 US\$210,470	April 3, 2023
September 1, 2018	US\$215,596	US\$4,140	5.63%	CAD\$271,497	CAD\$274,650 US\$212,907	August 20, 2023

(1) Blended monthly payments of principal and interest.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

10 Long-term debt (continued)

(iii) Finance lease liability

During the three months ended September 30, 2018, the Company refinanced three finance leases for a 36 month term at a reduce interest rate of 6.50% per annum. The refinanced leases noted below are secured by shredding vehicles. The information presented is as of September 30, 2018:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Residual ⁽²⁾	Maturity
August 5, 2018	US\$54,814	US\$1,556	6.50%	CAD\$23,420	CAD\$65,126 US\$50,485	US\$8,692	August 5, 2021
August 20, 2018	US\$46,177	US\$1,304	6.50%	CAD\$71,346	CAD\$54,655 US\$42,369	US\$7,252	August 20, 2021
August 20, 2018	US\$95,948	US\$2,576	6.50%	CAD\$148,011	CAD\$116,032 US\$89,947	US\$14,400	August 20, 2021

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

Future minimum finance lease payments at September 30, 2018, stated in Canadian dollars, were as follows:

	2018 \$	2019 \$	2020 \$	2021 \$	Total \$
Lease payments	9,742	69,147	73,778	83,147	235,814
Finance charges	(3,854)	(12,658)	(8,028)	(2,627)	(27,167)
Net present values	5,888	56,489	65,750	80,520	208,647

At September 30, 2018, the future minimum lease payments have been translated at the closing exchange rate of USD\$1.00 = CAD\$1.29.

(iv) Related party line of credit

The Company has a related party line of credit facility for a maximum amount of \$2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at September 30, 2018, the facility has not been drawn upon.

11 Capital stock

a) Authorized

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

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

11 Capital stock (continued)

b) Issued and fully paid

On July 26, 2018, the Company completed a private placement of 18,333,334 common shares of the Company at a price of \$0.60 per common share for gross proceeds of \$11 million. 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 \$11 million gross proceeds have been recorded net of transaction costs of \$797,023, which include broker commissions, legal and regulatory fees.

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

Balance as at	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
September 30, 2018	65,885,921	23,664,507	1,852,150	610,515	67,738,071	24,275,022
December 31, 2017	47,502,587	13,451,864	1,852,150	610,515	49,354,737	14,062,379

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the nine months ended September 30, 2018, was 52,043,427 (December 31, 2017 – 46,017,909). The diluted weighted average number of common shares outstanding for the nine months ended September 30, 2018, was 53,159,841 (December 31, 2017 – 47,089,982).

d) Stock options

At September 30, 2018, the Company has 1,765,500 options outstanding (December 31, 2017 – 1,194,000) and a weighted average exercise price of \$0.48 (December 31, 2017 - \$0.39). In the nine months ended September 30, 2018, 50,000 stock options were exercised (for the nine months ended September 30, 2017 – 1,405,000). There were 621,500 stock options granted during the nine months ended September 30, 2018 (for the nine months ended September 30, 2017 – 749,000). For the nine months ended September 30, 2018, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$228,804 (for the nine months ended September 30, 2017 – \$287,322).

e) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of a private placement. Each warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. The fair values of the warrants were determined using the Black-Scholes option pricing model. There were no warrants exercised during the nine months ended September 30, 2018 (150,000 – during the nine months ended June 30, 2017). There are 1,852,150 warrants outstanding as of September 30, 2018.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

12 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>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Royalties and license fees	542,927	485,071	1,614,313	1,535,805
Shredding services	2,361,152	1,972,790	6,834,899	5,870,241
Sale of paper products	616,018	376,552	1,572,807	1,164,585
Total revenue	3,520,097	2,834,413	10,022,019	8,570,631

13 Corporate operating locations expenses by nature

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Shredding vehicle and related expenses	474,624	302,415	1,194,747	922,254
Acquisition costs	41,280	32,416	67,080	54,583
Employee wages expense	958,724	683,608	2,527,632	2,076,963
Employee benefit expense	150,679	116,891	460,863	362,660
Office and administration expense	313,794	261,893	917,696	793,288
Total corporate operating expenses	1,939,101	1,397,223	5,168,018	4,209,748

14 Selling, general and administrative expenses by nature

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee wages and benefits	374,173	277,579	1,122,677	850,614
Share-based compensation	18,793	10,523	228,804	287,322
Professional fees	75,753	46,241	176,608	152,294
Acquisition costs	66,657	–	81,629	9,434
Travel	36,972	42,681	141,668	140,735
Technology	79,800	87,980	232,070	273,175
Rent and office expense	46,230	35,222	126,161	96,921
Selling and development	36,344	28,710	128,446	74,894
Other	29,162	43,658	93,180	104,827
Total selling, general & administrative expenses	763,884	572,594	2,331,243	1,990,216

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

14 Selling, general and administrative expenses by nature (continued)

Compensation of key management

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Wages and benefits	253,284	172,463	716,829	530,525
Share-based compensation	16,772	10,870	223,265	264,697
Total	270,056	183,333	940,094	795,222

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

15 Income taxes

The Company has incurred Canadian non-capital losses of \$4,362,557 as of December 31, 2017 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 of \$1,537,983 as of December 31, 2017 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2036. The provision for (recovery of) income taxes is comprised of the following:

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2018	2017	2018	2017
	\$	\$	\$	\$
Current income taxes	98,733	21,293	234,446	100,205
Deferred income taxes	(150,141)	419	(395,186)	(27,420)
Total	(51,408)	21,712	(160,740)	72,785

16 Commitments

The Company has the following office lease commitments:

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

Certain contracts include renewal options for various periods of time. For the nine months ended September 30, 2018, the Company incurred \$367,182 (for the nine months ended September 30, 2017 - \$271,967) in lease payments as an expense included in 'selling, general and administrative expenses' and 'corporate operating expenses.'

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

16 Commitments (continued)

Non-cancellable operating lease rentals are payable as follows:

	\$
Less than 1 year	487,959
Between 1 and 5 years	<u>1,043,442</u>
Total	<u>1,531,401</u>

17 Financial instruments and fair values

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

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

Interest rate risk

The Company's cash is subject to interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.25% per annum. The Company also has a variable interest rate of prime plus 2.50% per annum on its Bank of Montreal term loan and prime plus 1.70% per annum on its Bank of Montreal line of credit. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans and finance leases have fixed interest rates ranging from 5.39% to 7.50% per annum. The Company's notes payable have fixed interest rates ranging from 0% to 5.25%. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

Credit risk

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

Receivables related to franchising

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 September 30, 2018, 6 franchisees accounted for 57% of the accounts receivable and notes receivable balance related to franchising (December 31, 2017 - 6 franchises accounted for 59%). For the nine months ended September 30, 2018, 3 franchisees accounted for 23% of the Company's revenues related to franchising (December 31, 2017 - 3 franchisees accounted for 18%). As of September 30, 2018, there were no accounts and notes receivable outstanding over 90 days (December 31, 2017 – nil).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

17 Financial instruments and fair values (continued)

Credit risk (continued)

Receivables related to corporate operations (continued)

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At September 30, 2018, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2018 and 2017, no customer accounted for more than 10% of the revenue related to corporate operations. As of September 30, 2018, 4% of accounts receivable related to corporate operations were over 90 days (December 31, 2017 – 6%). As at September 30, 2018, the Company has recorded an allowance for credit losses of \$2,277 (December 31, 2017 - \$2,219). The Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

The Company has revenues and costs that are denominated in US dollars; this dependency on the US dollar causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar. The Company has significant dollar value assets denominated in US dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses. During the nine months ended September 30, 2018, the Company recorded a foreign exchange gain of \$114,131 (during the nine months ended September 30, 2017 – loss of \$367,553). Exchange rates utilized (USD to CDN):

As at,	September 30, 2018	December 31, 2017
	\$	\$
Close rate	1.29	1.26

For the nine months ended,	September 30, 2018	September 30, 2017
	\$	\$
Average rate	1.29	1.31

Liquidity risk

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

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of \$2,261,203 at September 30, 2018 (December 31, 2017 - \$2,246,816), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$13,972,300 at September 30, 2018 (December 31, 2017 - \$3,658,075) including a cash balance of \$12,305,473 (December 31, 2017 - \$2,245,533).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

17 Financial instruments and fair values (continued)

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	798,851	232,288	–	–
Notes payable	34,952	36,342	7,820	–
Long-term debt	268,145	778,753	2,532,050	–
Contingent consideration	50,463	54,640	30,144	–
Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	433	521	137	–
Long-term debt	53,572	134,720	218,693	–
Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	798,851	232,288	–	–
Notes payable	35,385	36,863	7,957	–
Long-term debt	321,717	913,473	2,750,743	–
Contingent consideration	50,463	54,640	30,144	–

Fair value of financial instruments

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

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at September 30, 2018, amounted to \$112,985 (December 31, 2017 - \$104,226) with fair value estimated to be \$110,217 (December 31, 2017 - \$103,075), respectively.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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(expressed in Canadian dollars)

18 Capital management

The Company defines capital as shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains the appropriate capital levels to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares or issue debt securities.

To effectively manage its capital, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives. The Company expects its current resources and projected cash flows from continuing operations to support its growth objectives.

The Company has credit facilities with Bank of Montreal which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. Refer to note 11 for the financial covenants.

19 Segment reporting

The business segments presented reflect the management structure of the Company and the way in which the Company's management reviews business performance. The Company operates three reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising), (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, 2018

(expressed in Canadian dollars)

19 Segment reporting (continued)

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

	Franchising	Corporate locations	Corporate Overhead	Total
	September 30, 2018	September 30, 2018	September 30, 2018	September 30, 2018
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	75,382	4,899,822	7,330,269	12,305,473
Cash attributable to the Ad Fund	183,066	—	—	183,066
Trade and other receivables	162,201	1,012,375	36,785	1,211,361
Prepaid expenses	29,570	94,939	36,633	161,142
Notes receivable from franchisees	111,258	—	—	111,258
Total current assets	561,477	6,007,136	7,403,687	13,972,300
Non-current assets				
Notes receivable from franchisees	1,727	—	—	1,727
Equipment	4,986	4,026,389	31,219	4,062,594
Intangible assets	20,666	2,445,425	—	2,466,091
Goodwill	—	1,860,741	—	1,860,741
Deferred tax asset	—	—	853,234	853,234
Total assets	588,856	14,339,691	8,288,140	23,216,687
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	289,822	260,930	420,044	970,796
Current income taxes payable	—	—	60,346	60,346
Current portion of notes payable	—	71,294	—	71,294
Current portion of long-term debt	—	1,053,664	—	1,053,664
Current portion of contingent consideration	—	105,103	—	105,103
Total current liabilities	289,822	1,490,991	480,390	2,261,203
Non-current liabilities				
Long-term debt	—	2,400,761	—	2,400,761
Long-term contingent consideration	—	30,144	—	30,144
Long-term note payable	—	7,820	—	7,820
Total liabilities	289,822	3,929,716	480,390	4,699,928

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

19 Segment reporting (continued)

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

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19 Segment reporting (continued)

Geographic information

	September 30, 2018	December 31, 2017
Canada	\$	\$
Tangible assets	31,219	31,747
Intangible assets	—	44,208
United States		
Notes receivable from franchisees	112,985	104,226
Tangible assets	4,031,375	3,740,487
Intangible assets	2,466,091	1,833,912
Goodwill	1,860,741	1,720,437
Total		
Notes receivable from franchisees	112,985	104,226
Tangible assets	4,062,594	3,772,234
Intangible assets	2,466,091	1,878,120
Goodwill	1,860,741	1,720,437

Revenue

All revenues were attributed to the United States.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

19 Segment reporting (continued)

Net income by operating segment

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

For the three months ended September 30, 2018

	Franchising	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	542,927	2,977,170	–	3,520,097
Direct costs	–	(1,939,101)	–	(1,939,101)
Selling, general and administrative	(324,739)	(257,573)	(181,572)	(763,884)
Depreciation – tangible assets	(5,315)	(285,325)	(6,102)	(296,742)
Operating income (loss)	212,873	495,171	(187,674)	520,370
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)	142,374	323,655	(164,630)	302,299

For the three months ended September 30, 2017

	Franchising	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	485,071	2,349,342	–	2,834,413
Direct costs	–	(1,397,223)	–	(1,397,223)
Selling, general and administrative	(253,265)	(268,203)	(51,126)	(572,594)
Depreciation – tangible assets	–	(250,961)	(4,189)	(255,150)
Operating income (loss)	231,806	432,955	(55,315)	609,446
Amortization – intangible assets	(146,165)	(98,289)	–	(244,454)
Foreign exchange loss	–	–	(335,035)	(335,035)
Interest expense	–	(78,156)	–	(78,156)
Interest income	1,795	–	–	1,795
Income tax expense	(21,712)	–	–	(21,712)
Net income (loss)	65,724	256,510	(390,350)	(68,116)

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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(expressed in Canadian dollars)

19 Segment reporting (continued)

For the nine months ended September 30, 2018

	Franchising	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,614,313	8,407,706	–	10,022,019
Direct costs	–	(5,168,018)	–	(5,168,018)
Selling, general and administrative	(833,399)	(712,858)	(784,986)	(2,331,243)
Depreciation – tangible assets	(7,272)	(793,780)	(15,786)	(816,838)
Operating income (loss)	773,642	1,733,050	(800,772)	1,705,920
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)	567,007	1,241,967	(335,479)	1,473,495

For the nine months ended September 30, 2017

	Franchising	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,535,805	7,034,826	–	8,570,631
Direct costs	–	(4,209,748)	–	(4,209,748)
Selling, general and administrative	(813,157)	(771,525)	(405,534)	(1,990,216)
Depreciation – tangible assets	–	(697,866)	(9,503)	(707,369)
Operating income (loss)	722,648	1,355,687	(415,037)	1,663,298
Amortization – intangible assets	(448,740)	(285,213)	–	(733,953)
Foreign exchange loss	–	–	(367,553)	(367,553)
Interest expense	–	(284,489)	–	(284,489)
Interest income	6,125	–	–	6,125
Income tax expense	(43,233)	(29,552)	–	(72,785)
Net income (loss)	236,800	756,433	(782,590)	210,643

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(expressed in Canadian dollars)

20 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is no accounts receivable balance due from this franchise at September 30, 2018 (December 31, 2017 - \$nil). During the nine months ended September 30, 2018, the Company earned royalties, service fees and interest income of \$112,079 (during the nine months ended September 30, 2017 - \$96,080) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$12,206 as at September 30, 2018, which has an interest rate of 5% per annum.

21 Subsequent events

On October 1, 2018, the Company completed an asset acquisition of the Safe Shredding business located in North New Jersey for a total purchase price of approximately \$6.4 million (US\$5 million). The purchase is to be paid as follows (amounts are approximate and based on current foreign exchange rates):

- (i) \$4.226 million cash (including a 90 day holdback) from cash reserves;
- (ii) issuance of a promissory note in the amount of \$704,000 and a vehicle financing contract in the amount of \$373,000;
- (iii) the issuance of 671,434 common shares of the Company at a deemed price of \$0.68 per common share, valued at \$457,000; and
- (iv) a contingent consideration liability of \$640,000.

The acquisition includes on-site paper shredding trucks, client relationships and other equipment used in the business. The Company views this acquisition as accretive to the Company's operating income and earnings per share.