

# **RediShred Capital Corp.**

Consolidated Interim Financial Statements

**March 31, 2019 and 2018 Restated<sup>(1)</sup>**

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

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

**May 29, 2019**

**In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2019.**

# RediShred Capital Corp.

## Consolidated Statements of Financial Position

As at March 31, 2019 and December 31, 2018

(expressed in Canadian dollars)

	March 31, 2019	December 31, 2018
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	109,949	8,830,669
Cash attributable to the Advertising Fund (note 4)	188,685	215,709
Trade and other receivables (note 5)	2,177,317	1,461,562
Prepaid expenses	359,478	223,196
Notes receivable from franchisees (note 6)	128,396	47,496
<b>Total current assets</b>	<b>2,963,825</b>	<b>10,778,632</b>
<b>Non-current assets</b>		
Notes receivable from franchisees (note 6)	365,210	42,450
Tangible assets (note 8)	9,942,632	5,835,968
Intangible assets (note 9)	9,776,139	5,185,990
Goodwill (notes 7 and 10)	7,417,401	4,812,448
Deferred tax asset (note 19)	1,255,060	1,287,473
<b>Total non-current assets</b>	<b>28,756,442</b>	<b>17,164,329</b>
<b>Total assets</b>	<b>31,720,267</b>	<b>27,942,961</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 20)	1,309,131	1,411,280
Current income taxes payable (note 19)	–	53,543
Current portion of deferred revenue	228,248	236,821
Current portion of long-term debt (note 13)	1,326,266	1,253,723
Current portion of notes payable (note 11)	414,234	281,813
Current portion of contingent consideration (note 12)	1,550,629	253,180
Current portion of lease liabilities (note 14)	518,699	–
<b>Total current liabilities</b>	<b>5,347,207</b>	<b>3,490,360</b>
<b>Non-current liabilities</b>		
Long-term debt (note 13)	3,320,930	3,184,768
Long-term deferred revenue	364,516	428,464
Long-term notes payable (note 11)	527,224	476,397
Long-term contingent consideration (note 12)	348,250	415,437
Long-term lease liabilities (note 14)	1,313,555	–
<b>Total non-current liabilities</b>	<b>5,874,475</b>	<b>4,505,066</b>
<b>Total liabilities</b>	<b>11,221,682</b>	<b>7,995,426</b>
<b>Shareholders' equity</b>		
Capital stock (note 15)	24,961,090	24,961,090
Contributed surplus	932,285	890,757
Accumulated foreign currency translation loss	(685,683)	(649,893)
Deficit	(4,709,107)	(5,254,419)
<b>Total liabilities and shareholders' equity</b>	<b>31,720,267</b>	<b>27,942,961</b>

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

# RediShred Capital Corp.

## Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

(expressed in Canadian dollars)

	2019 \$	2018 <sup>(1)</sup> (restated) \$
Revenue (note 16)	5,202,806	3,154,292
Corporate operating locations expenses (note 17)	(2,784,275)	(1,483,806)
Depreciation – tangible assets	(587,436)	(247,511)
Selling, general and administrative expenses (note 18)	(798,790)	(871,727)
Total expenses	(4,170,501)	(2,603,044)
<b>Operating income</b>	<b>1,032,305</b>	<b>551,248</b>
Amortization – intangible assets	(248,449)	(160,723)
Foreign exchange (loss) gain	(232,131)	152,586
Other income (note 8)	131,254	–
Interest expense	(122,295)	(65,460)
Interest income	8,293	1,192
<b>Income before income taxes</b>	<b>568,977</b>	<b>478,843</b>
Income tax (expense) recovery (note 19)	(23,665)	21,759
<b>Net income for the period</b>	<b>545,312</b>	<b>500,602</b>
<b>Other comprehensive loss</b>		
Foreign currency translation loss	(35,790)	(2,532)
<b>Comprehensive income for the period</b>	<b>509,522</b>	<b>498,070</b>
<b>Net income per share</b>		
Basic	0.008	0.011
Diluted	0.008	0.010
<b>Weighted average number of commons shares outstanding – basic</b>	<b>66,558,230</b>	<b>47,511,014</b>
<b>Weighted average number of commons shares outstanding – diluted</b>	<b>68,121,833</b>	<b>48,462,228</b>

Note 1 - Restatement in accordance with IFRS 15 adoption. See note 2 – Significant Accounting Policies.

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 months ended March 31, 2019 and 2018

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 15)	Contributed surplus \$	Accumulated foreign currency translation loss \$	Deficit \$	Total shareholders' equity \$
<b>Balance – January 1, 2018</b>	14,062,379	647,283	(698,352)	(7,966,897)	6,044,413
Net income for the year	–	–	–	2,712,478	2,712,478
Foreign currency translation income	–	–	48,459	–	48,459
Comprehensive income for the year					2,760,937
Issue of shares (note 15)	10,898,711	(4,664)	–	–	10,894,047
Stock-based compensation (note 15)	–	248,138	–	–	248,138
<b>Balance – December 31, 2018</b>	<b>24,961,090</b>	<b>890,757</b>	<b>(649,893)</b>	<b>(5,254,419)</b>	<b>19,947,535</b>
Net income for the period	–	–	–	545,312	545,312
Foreign currency translation loss	–	–	(35,790)	–	(35,790)
Comprehensive income for the period					509,522
Issue of shares (note 15)	–	1,507	–	–	1,507
Stock-based compensation (note 15)	–	40,021	–	–	40,021
<b>Balance – March 31, 2019</b>	<b>24,961,090</b>	<b>932,285</b>	<b>(685,683)</b>	<b>(4,709,107)</b>	<b>20,498,585</b>

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

# RediShred Capital Corp.

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(expressed in Canadian dollars)

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>(restated)</b>
		<b>\$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	545,312	500,602
Items not affecting cash		
Amortization of tangible and intangible assets	835,885	408,483
Stock-based compensation	40,021	140,752
Unrealized foreign currency loss (gain)	241,165	(285,189)
Other income	131,254	-
Income tax recovery	32,413	(83,354)
	<u>1,826,050</u>	<u>681,294</u>
Net change in non-cash working capital balances		
(Increase) in trade receivables	(478,391)	(208,343)
(Increase) in prepaid expenses	(139,850)	(106,227)
(Decrease) increase in accounts payable and accrued liabilities	(67,973)	115,033
(Decrease) in income taxes payable	(120,052)	(43,622)
(Decrease) in deferred revenue	(57,758)	(54,707)
		<u>962,026</u>
Net cash provided by operations	962,026	383,428
<b>Financing activities</b>		
Borrowings from long-term debt	583,944	-
Repayment of long-term debt	(307,477)	(259,511)
Issuance of capital stock (net of fees)	1,350	2,500
Repayment of notes receivable from franchisees	7,867	21,357
Payment of notes payable	(100,101)	(31,193)
Payment of contingent considerations	(74,689)	(8,818)
New lease liabilities	56,773	-
Payment of lease liabilities	(135,994)	-
	<u>31,673</u>	<u>(275,665)</u>
<b>Investing activities</b>		
Acquisitions	(8,760,643)	-
Cash held by advertising fund	22,201	39,165
Purchase of capital assets	(773,129)	(47,605)
Issuance of note receivable	(13,337)	-
	<u>(9,524,908)</u>	<u>(8,440)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>(189,511)</u>	<u>45,670</u>
<b>Net change in cash for the period</b>	<u>(8,720,720)</u>	<u>144,993</u>
<b>Cash – Beginning of period</b>	<u>8,830,669</u>	<u>2,245,533</u>
<b>Cash – End of period</b>	<u>109,949</u>	<u>2,390,526</u>

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under two business models, (1) franchising in the United States, (2) via direct ownership of shredding trucks and facilities in nine locations in the United States, as of March 31, 2019.

### 2 Significant Accounting Policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2018, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2019. Together, Redishred and its subsidiaries are referred to as “the Company.”

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2018 and have been consistently applied in the preparation of these consolidated financial statements except for new accounting policies which have been adopted on January 1, 2019, as required. With the adoption of accounting standard, IFRS 15, *Revenue from Contracts with Customers*, for the year ended December 31, 2018, the Company has restated the comparative information in accordance with this standard.

The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation. These interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The interim consolidated financial statements are presented in Canadian dollars, which is Redishred’s presentation currency.

The interim consolidated financial statements of the Company for the three months ended March 31, 2019 were authorized for issue in accordance with a resolution of the Directors on May 28, 2019.

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

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 2 Significant Accounting Policies (continued)

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

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

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

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

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

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

See note 14 for the Company's accounting policy for leases under IFRS 16 including estimates and judgements related to the accounting for leases.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 2 Significant Accounting Policies (continued)

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

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

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 3 Cash and cash equivalents

The Company received an advance on the operating line of credit under its senior credit facilities, of which the balance is \$892,192 on March 31, 2019 (nil balance – December 31, 2018). Borrowings under the operating line of credit are limited by standard borrowing base calculations based on accounts receivable, which are typical for bank credit facilities. \$250,000 of the operating line of credit is permanently available.

### 4 Advertising fund

The Company manages an advertising fund (the “Ad Fund”) established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Ad Fund contributions are required to be made from both franchised and Company owned and operated locations and are based on the annual level of revenue from each location. The Ad Fund contributions and expenses from the Company owned locations have been eliminated on consolidation.

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

<b>For the 3 months ended,</b>	<b>March 31, 2019</b>	<b>March 31, 2018</b>
	\$	\$
Ad Fund revenue	70,357	83,490
Ad Fund expenses	(112,947)	(118,953)
Ad Fund net loss	(42,590)	(35,463)

  

<b>As at,</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Cash attributable to the Ad Fund	188,685	215,709

### 5 Trade and other receivables

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

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Trade receivables	1,882,439	1,395,888
Other receivables	297,231	68,081
Less: Allowance for doubtful accounts	(2,353)	(2,407)
Trade receivables – net	2,177,317	1,461,562

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 6 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees and from the sale of customer assets to franchisees when the customer assets are located in a franchisees territory. All notes receivable are guaranteed by the respective owners of the franchises. On February 28, 2019, the Company sold the customer assets located in Southern New Jersey to its Southern New Jersey franchisee for US\$300,000 and issued a promissory note of US\$290,000. The notes receivable bear interest rates ranging from 4.25% to 6.00% per annum with monthly blended payments of principal and interest ranging from US\$595 to US\$5,506. The payments on the notes commenced between dates ranging from January 1, 2014 to March 1, 2019 and mature between dates ranging from October 1, 2019 to February 1, 2024.

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

	<u>2019</u>	<u>2018</u>
	\$	\$
Opening balance	89,946	104,226
Plus: new notes	413,447	81,828
Less: repayments	<u>(9,787)</u>	<u>(96,108)</u>
Closing balance	<u>493,606</u>	<u>89,946</u>

### 7 Acquisitions

On January 31, 2019, the Company completed the acquisition of the Proshred Kansas City and Secure E-Cycle business from its franchisee. The Company conducted the acquisitions to increase its long-term cash flows and to increase its market share in the United States.

The purchase price of each acquisition was allocated to the assets acquired (including all intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of each acquisition. The Company translated the fair values of all assets acquired, liabilities assumed, and consideration given using the exchange rate on the date of the acquisitions. On March 31, 2019, the assets and liabilities acquired are converted at the closing rate of \$1USD = 1.33CAD in the Statement of Financial Position.

The following table outlines the total amounts of the assets purchased and the consideration given on the closing date of the acquisitions in aggregate.

	<b>Kansas City</b>
Exchange rate used	1.31
<b>Assets acquired</b>	
Net Working capital	235,800
Tangible assets	2,902,014
Customer relationships	5,182,264
Goodwill	<u>2,662,661</u>
	<u>10,982,739</u>
<b>Consideration given</b>	
Cash	8,760,643
Note payable (note 10)	294,750
Contingent consideration (note 11)	1,296,257
Lease liability	<u>631,089</u>
	<u>10,982,739</u>
Acquisition costs (expensed in statement of comprehensive income)	<u>61,820</u>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 7 Acquisitions (continued)

As part of the acquisitions, the Company issued two notes payable of US\$150,000 and US\$75,000. Refer to note 10. The Company recorded the notes payable at fair value in accordance with IFRS 9 *Financial Instruments*. Subsequent to the acquisition date, the Company has measured the notes payable at amortized cost using the effective interest method.

The contingent consideration liabilities related to the acquisitions are tied to the retention of clients and revenue over a 12-month period of time post acquisition.

The fair values of the assets were determined on the basis of observable market prices, where possible. The fair values of the customer relationships were determined by estimating the discounted level of future cash flows anticipated from the recurring customer relationships purchased.

The pro forma consolidated results of the Company, as if the acquisitions had been closed on January 1, 2019, would result in estimated revenue of \$5,549,444 (compared to reported revenue of \$5,202,806) and estimated net income of \$596,676 (compared to reported net income of \$545,312). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2019 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the Company that would have occurred had the purchases actually been made at the beginning of the period presented or indicative of the future results of the Company.

### 8 Tangible assets

	March 31, 2019			December 31, 2018		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Computer equipment	300,539	(262,574)	37,965	299,128	(256,894)	42,234
Furniture & fixtures	198,381	(129,297)	69,084	166,361	(124,166)	42,195
Bins & shredding containers	1,377,085	(615,010)	762,075	1,048,222	(586,002)	462,220
Shredding vehicles - chassis	3,169,524	(935,784)	2,233,740	2,491,987	(851,143)	1,640,844
Shredding vehicles - box	6,952,895	(2,259,667)	4,693,228	5,696,153	(2,080,371)	3,615,782
Vehicles	170,615	(122,334)	48,281	160,486	(127,793)	32,693
Baling equipment	286,212	(4,992)	281,220	-	-	-
Right of use assets	1,963,895	(146,856)	1,817,039	-	-	-
<b>Total tangible assets</b>	<b>14,419,146</b>	<b>(4,476,514)</b>	<b>9,942,632</b>	<b>9,862,337</b>	<b>(4,026,369)</b>	<b>5,835,968</b>

	December 31, 2018	January 1, 2019					Foreign exchange	March 31, 2019
	Net carrying amount	Adoption of IFRS 16	Additions	Acquisitions	Depreciation	Disposition of Assets		
Computer equipment	42,234	-	4,814	-	(8,313)	-	(770)	<b>37,965</b>
Furniture & fixtures	42,195	-	1,650	31,221	(5,212)	-	(770)	<b>69,084</b>
Bins & shredding containers	462,220	-	84,028	280,468	(45,974)	(12,319)	(6,347)	<b>762,076</b>
Shredding vehicles - chassis	1,640,844	-	197,574	580,330	(115,933)	(32,860)	(36,215)	<b>2,233,740</b>
Shredding vehicles - box	3,615,782	-	443,537	1,045,380	(249,170)	(79,161)	(83,141)	<b>4,693,228</b>
Vehicles	32,693	-	948	52,400	(10,986)	(26,118)	(656)	<b>48,281</b>
Baling equipment	-	-	-	281,126	(4,992)	-	5,086	<b>281,220</b>
Right of use assets	-	1,277,839	68,190	631,089	(146,856)	-	(13,222)	<b>1,817,039</b>
<b>Total tangible assets</b>	<b>5,835,968</b>	<b>1,277,839</b>	<b>800,741</b>	<b>2,902,014</b>	<b>(587,436)</b>	<b>(150,458)</b>	<b>(136,035)</b>	<b>9,942,632</b>

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 8 Tangible assets (continued)

The Company disposed of assets related to an insurance claim which resulted in a net gain recorded in the Consolidated Statement of Comprehensive Income. The net carrying value of the assets were lower than the amount receivable from the insurance claim.

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 March 31, 2018 and December 31, 2018.

### 9 Intangible assets

	March 31, 2019			December 31, 2018		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
Computer software	41,144	(11,509)	29,635	21,821	(4,546)	17,275
Customer relationships	11,854,854	(2,108,350)	9,746,504	7,082,548	(1,913,833)	5,168,715
<b>Total intangible assets</b>	<b>11,895,998</b>	<b>(2,119,859)</b>	<b>9,776,139</b>	<b>7,104,369</b>	<b>(1,918,379)</b>	<b>5,185,990</b>

	January 1, 2019						March 31, 2019
	Net carrying amount	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	Net carrying value
Computer software	17,275	19,805	-	-	(6,788)	(657)	29,635
Customer relationships	5,168,715	-	(343,200)	5,182,264	(241,661)	(19,614)	9,746,504
<b>Total intangible assets</b>	<b>5,185,990</b>	<b>19,805</b>	<b>(343,200)</b>	<b>5,182,264</b>	<b>(248,449)</b>	<b>(20,271)</b>	<b>9,776,139</b>

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

On February 28, 2019, the Company sold the customer relationships located in Southern New Jersey to its Southern New Jersey franchisee for US\$300,000. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2019 and December 31, 2018. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company's franchises and corporately owned locations in the US.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 10 Goodwill

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

	March 31, 2019	December 31, 2018
	\$	\$
Opening balance	4,812,448	1,720,437
Acquisitions (note 7)	2,662,661	2,765,886
Foreign currency translation	(57,708)	326,125
<b>Closing balance</b>	<b>7,417,401</b>	<b>4,812,448</b>

### 11 Notes payable

As at March 31, 2019, notes payable is comprised of:

Origination	Initial amount	Payment <sup>(1)</sup>	Interest per annum	Current portion	Long-term portion	Maturity
March 31, 2017	US\$125,000	US\$5,208	0.00%	CAD\$13,893 US\$10,417	– –	April 1, 2019
April 2, 2018	US\$20,000	US\$880	5.25%	CAD\$13,628 USD\$10,217	CAD\$1,168 USD\$876	April 4, 2020
October 1, 2018	US\$550,000	US\$16,484	5.00%	CAD\$237,301 USD\$177,926	CAD\$400,801 USD\$300,518	October 5, 2021
January 31, 2019	US\$75,000	US\$3,166	1.25%	CAD\$49,805 USD\$37,343	CAD\$41,982 USD\$31,478	January 31, 2021
January 31, 2019	US\$150,000	US\$6,332	1.25%	CAD\$99,607 USD\$74,687	CAD\$83,273 USD\$62,956	January 31, 2021
<b>Total Notes Payable</b>				<b>CAD\$414,234</b> <b>USD\$310,590</b>	<b>CAD\$527,224</b> <b>USD\$395,828</b>	

(1) Blended monthly payments of principal and interest.

### 12 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. The Company believes the sales levels will be met over the period of time to maturity, requiring payment of all contingent consideration liabilities.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 12 Contingent consideration (continued)

As of March 31, 2019, contingent consideration is comprised of:

Acquisition	Origination	Initial amount	Current Portion	Long-term Portion	Maturity
North Virginia	March 31, 2017	US\$98,000	CAD\$8,636 USD\$6,475	CAD\$14,826 USD\$11,117	March 31, 2021
Safe Shredding	October 1, 2018	US\$500,000	CAD\$222,285 USD\$166,668	CAD\$333,424 USD\$250,000	October 1, 2021
Kansas City	January 31, 2019	US\$681,475	CAD\$908,883 USD\$681,475	–	January 31, 2020
Secure E-Cycle	January 31, 2019	US\$308,034	CAD\$410,825 USD\$308,034	–	January 31, 2020
<b>Total contingent consideration</b>			<b>CAD\$1,550,629 USD\$1,162,652</b>	<b>CAD\$348,250 USD\$261,115</b>	

### 13 Long-term debt

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

	March 31, 2019	December 31, 2018
	\$	\$
Bank indebtedness	1,337,829	1,438,166
Less: deferred financing charges	(108,281)	(116,402)
Net bank indebtedness (i)	1,229,548	1,321,764
Truck loans (ii)	2,422,531	2,041,740
Finance lease liability (iii)	995,117	1,074,987
Total long-term debt	4,647,196	4,438,491
Less: current portion	(1,326,266)	(1,253,723)
<b>Total long-term debt</b>	<b>3,320,930</b>	<b>3,184,768</b>

#### (i) Bank indebtedness

As of March 31, 2019, the Company has the following secured senior credit facilities:

1. An operating line of credit 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 period of 60 months from the date of drawdown, bearing interest at prime rate plus 2.5%.

As at March 31, 2019, the Company's lender has advanced \$2 million on the non-revolving term loan, of which the balance was \$1,337,829, at March 31, 2019.

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.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 13 Long-term debt (continued)

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

Subsequent to March 31, 2019, the Company secured an additional senior credit facility, a non-revolving term loan, of USD\$9.5 million. On May 6, 2019, the Company was advanced USD\$4.47 million on the USD\$9.5 million term loan bearing interest at a fixed rate of 3.50% with an amortization period of 60 months. The Company also revised the terms of its existing credit facilities with its lender. The non-revolving term loan interest rate was reduced from prime rate plus 2.50% to prime rate plus 1.00%.

The bank credit facilities as at March 31, 2019, contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. In particular, the facility contains covenants that require the Company to maintain the following:

1. A minimum fixed charge coverage ratio of 1.25:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 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 \$1.5 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 March 31, 2019, the Company was in compliance with all of the banking covenants. Subsequent to March 31, 2019, the bank credit facilities financial covenants were amended and increased in conjunction with the additional credit facility established.

The Company has also established a \$1.7 million USD line of credit for the purchase of shredding vehicles with a lender in the United States. The line of credit is open for one year, until November 2019 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used. As of March 31, 2019, the Company has received an advance of USD\$600,715 on the line of credit, which is included in the truck loans balance. The Company has USD\$1,099,285 available for use on the line of credit as of March 31, 2019.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 13 Long-term debt (continued)

#### (ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as of March 31, 2019:

Origination	Initial amount	Payment <sup>(1)</sup>	Interest per annum	Asset carrying value	Loan value	Maturity
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$191,558	CAD\$86,407 USD\$64,787	June 23, 2020
July 22, 2015	US\$300,000	US\$7,283	7.50%	CAD\$171,864	CAD\$38,242 USD\$28,673	July 22, 2019
July 5, 2016	US\$176,546	US\$3,904	6.40%	CAD\$159,305	CAD\$89,060 USD\$66,777	September 5, 2020
September 5, 2016	US\$381,572	US\$7,392	5.95%	CAD\$476,365	CAD\$265,345 USD\$198,954	August 5, 2021
March 22, 2017	US\$170,581	US\$3,282	5.71%	CAD\$264,593	CAD\$144,293 USD\$108,190	March 22, 2022
May 3, 2017	US\$230,956	US\$4,465	5.99%	CAD\$262,338	CAD\$205,676 USD\$154,214	May 5, 2022
May 4, 2017	US\$236,456	US\$4,549	5.71%	CAD\$268,673	CAD\$210,301 USD\$157,557	May 4, 2022
April 3, 2018	US\$227,137	US\$4,331	5.39%	CAD\$280,825	CAD\$253,357 USD\$189,966	April 3, 2023
September 1, 2018	US\$215,596	US\$4,140	5.63%	CAD\$266,398	CAD\$258,526 USD\$193,842	August 20, 2023
December 11, 2018	US\$220,685	US\$4,250	5.75%	CAD\$288,032	CAD\$281,500 USD\$211,067	December 11, 2023
January 28, 2019	US\$228,345	US\$4,394	5.75%	CAD\$311,018	CAD\$300,534 USD\$225,339	February 5, 2024
March 5, 2019	US\$216,908	US\$4,093	4.95%	CAD\$279,257	CAD\$289,290 USD\$216,908	April 5, 2024
<b>Total truck loans</b>					<b>CAD\$2,422,531</b> <b>USD\$1,816,274</b>	

(1) Blended monthly payments of principal and interest.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 13 Long-term debt (continued)

#### (iii) Finance lease liabilities

The finance leases noted below are secured by shredding vehicles. The information presented is as of March 31, 2019:

Origination	Initial amount	Payment <sup>(1)</sup>	Interest per annum	Asset carrying value	Loan value	Residual <sup>(2)</sup>	Maturity
August 5, 2018	US\$54,814	US\$1,556	6.50%	CAD\$2,975	CAD\$60,085 USD\$45,051	US\$8,692	August 5, 2021
August 20, 2018	US\$46,177	US\$1,304	6.50%	CAD\$43,606	CAD\$50,746 USD\$38,049	US\$7,252	August 20, 2021
August 20, 2018	US\$95,948	US\$2,576	6.50%	CAD\$125,895	CAD\$105,460 USD\$79,073	US\$14,400	August 20, 2021
September 10, 2018	US\$7,902	US\$276	6.21%	CAD\$9,391	CAD\$9,295 USD\$8,240	US\$882	September 10, 2021
October 2, 2018	US\$119,553	US\$3,329	5.95%	CAD\$204,690	CAD\$136,714 USD\$102,507	US\$12,000	October 2, 2021
October 2, 2018	US\$171,000	US\$3,105	5.95%	CAD\$211,639	CAD\$209,173 USD\$156,836	US\$49,000	October 2, 2022
October 2, 2018	US\$175,463	US\$3,865	5.95%	CAD\$216,726	CAD\$214,315 USD\$160,692	US\$18,500	October 2, 2022
October 2, 2018	US\$171,000	US\$3,106	5.95%	CAD\$211,639	CAD\$209,329 USD\$156,954	US\$49,000	October 2, 2022
<b>Total finance lease liabilities</b>					<b>CAD\$995,117</b> <b>USD\$747,402</b>		

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

Future minimum finance lease payments at March 31, 2019, stated in Canadian dollars, were as follows:

	2019 \$	2020 \$	2021 \$	2022 \$	Total \$
Lease payments	229,173	304,546	309,546	272,877	1,116,142
Finance charges	(40,825)	(42,668)	(26,951)	(10,581)	(121,025)
Net present values	188,348	261,878	282,595	262,296	995,117

At March 31, 2019, the future minimum lease payments have been translated at the closing exchange rate of USD\$1.00 = CAD\$1.33.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 13 Long-term debt (continued)

#### (iv) *Related party line of credit*

The Company has a related party line of credit facility for a maximum amount of CAD\$2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at March 31, 2019, the facility has not been drawn upon (\$nil balance – December 31, 2018).

### 14 Lease liabilities

#### *Accounting Policy Adopted*

The Company assesses each contract at its inception to determine whether that contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration then it is a contract lease. To assess whether a contract conveys the right to control the use of an identified asset, the Company determines whether the contract has the right (1) to use the identified asset, (2) to obtain substantially all of the economic benefits from use of the identified asset and (3) to direct the use of the identified asset.

At the lease commencement date a right-of-use asset and a lease liability is recorded. The right-of-use asset is initially measured at cost including:

- (1) The initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus
- (2) Any initial direct costs incurred; and
- (3) An estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- (4) Any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the lease term unless the Company expects to obtain ownership of the leased asset at the end of the lease (refer to note 8). The lease term consists of the non-cancellable period of the lease and the periods covered by options to extend or terminate the lease, where reasonably certain to exercise these options.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Company has used the incremental borrowing rate as the incremental borrowing rate implicit in the leases cannot be readily determined. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Lease payments included in the measurement of the lease liability include:

- (1) fixed payments;
- (2) variable payments that depend on an index or rate;
- (3) amounts expected to be payable under a residual value guarantee;
- (4) the exercise price under a purchase option, if reasonably certain to exercise;
- (5) lease payments in an optional renewal period, if reasonably certain to exercise the option; and
- (6) penalties for early termination, if reasonably certain to exercise the option.

The lease liability is re-measured when there is a change in:

- (1) future lease payments arising from a change in an index or rate;
- (2) estimate of the amount expected to be payable under a residual value guarantee;
- (3) expected exercise of a purchase, extension or termination option; and/or
- (4) lease contract terms;

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 14 Leases liabilities (continued)

#### *Use of Estimates and Judgements*

#### Judgements

Judgements are necessary in determining whether a contract contains an identified asset. The Company needs to determine whether the identified asset is physically distinct or represents substantially all of the capacity of the asset and provides the right to substantially all of the economic benefits from the use of the asset. There is also judgment required in determining whether or not the Company has the right to control the use of the identified asset. If the Company has the decision making rights that are most relevant to changing how and for what purpose the asset is used then the Company has the right to control the assets use.

The Company uses judgment in determining the incremental borrowing rate used to measure the lease liability for each lease contract, which should reflect the interest that the Company would have to pay to borrow at a similar term and security.

Judgement is required when assessing whether it is reasonably certain that a lease extension option will be exercised. The Company typically exercises extension options on its leases however periodic reassessments are made as to whether the Company is reasonably certain to exercise the options.

The activity related to the lease liabilities for the three months ended March 31, 2019 is as follows:

	<u>March 31, 2019</u>
	\$
<b>Opening balance</b>	1,277,839
Acquisitions	642,506
Additions	56,773
Imputed interest	(25,637)
Principal payments	(135,994)
Foreign exchange	16,767
	<u>1,832,254</u>
<b>Closing balance</b>	<u>1,832,254</u>

### 15 Capital stock

#### a) Authorized

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

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

#### b) Issued and fully paid

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

	<u>Common stock</u>		<u>Warrants</u>		<u>Total</u>	
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>
Balance March 31, 2019	66,561,105	24,367,666	1,648,400	593,424	68,209,505	24,961,090
Balance December 31, 2018	66,557,355	24,350,575	1,652,150	610,515	68,209,505	24,961,090

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 15 Capital stock (continued)

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

The basic weighted average number of common shares outstanding for the three months ended March 31, 2019, was 66,558,230 (December 31, 2018 – 55,724,940). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2019, was 68,121,833 (December 31, 2018 – 56,979,703).

#### d) Stock options

At March 31, 2019, the Company has 1,904,550 options outstanding (December 31, 2018 – 1,785,500) and a weighted average exercise price of \$0.48 (December 31, 2018 - \$0.47). There were no stock options exercised in the first three months of 2019 (for the three months ended March 31, 2018 – 25,000). There were 124,050 stock options granted during the three months ended March 31, 2019 (for the three months ended March 31, 2018 – 305,000). There were 5,000 stock options that expired during the three months ended March 31, 2019 (nil – three months ended March 31, 2018). For the three months ended March 31, 2019, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$40,021 (for the three months ended March 31, 2018 – \$140,752).

#### e) Warrants

The Company issued 1,802,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. The fair values of the warrants were determined using the Black-Scholes option pricing model. There were 3,750 warrants exercised during the three months ended March 31, 2019 (nil – three months ended March 31, 2018). There are 1,648,400 warrants outstanding as of March 31, 2019.

### 16 Revenue

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

	<i>For the 3 months ended</i>	
	<b>2019</b>	<b>2018</b>
	<b>2019</b>	<b>(restated)</b>
	<b>\$</b>	<b>\$</b>
Royalties and license fees	567,229	509,414
Franchise fees	57,758	54,935
Ad Fund contributions	70,357	83,490
Shredding services	3,644,525	2,120,174
Sale of paper products	862,937	386,279
<b>Total revenue</b>	<b>5,202,806</b>	<b>3,154,292</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 17 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</i>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Shredding vehicle and related expenses	584,498	340,017
Employee wages expense	1,499,852	713,908
Employee benefit expense	295,098	146,627
Office and administration expense	404,827	283,254
<b>Total corporate operating expenses</b>	<b>2,784,275</b>	<b>1,483,806</b>

### 18 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</i>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>(restated)</b>
	<b>\$</b>	<b>\$</b>
Employee wages and benefits	369,330	328,974
Share-based compensation	40,021	140,752
Acquisition costs	31,348	11,247
Professional fees	51,762	41,175
Travel	38,505	51,743
Technology	79,650	70,327
Rent and office expense	8,004	34,924
Selling and development	39,275	40,316
Ad Fund expenses	112,947	118,953
Other expenses	27,948	33,316
<b>Total selling, general and administrative expenses</b>	<b>798,790</b>	<b>871,727</b>

### Compensation of key management

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

	<i>For the 3 months ended</i>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Wages and benefits	251,943	210,647
Share-based compensation	20,714	139,089
<b>Total</b>	<b>272,657</b>	<b>349,736</b>

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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### 19 Income taxes

The Company has incurred Canadian non-capital losses that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2035. The Company has incurred US non-capital losses that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2037. During 2018, the Company recognized all temporary differences and non-capital losses.

	<i>For the 3 months ended</i>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Provision for (recovery of) income taxes is comprised of:</b>		
Current income taxes	(8,335)	61,595
Deferred income taxes	32,000	(83,354)
	<u>23,665</u>	<u>(21,759)</u>

### 20 Financial instruments and fair values

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

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

#### Interest rate risk

The Company's cash is subject to interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.25% per annum. As of March 31, 2019, the Company also has a variable interest rate of prime plus 2.50% per annum on its term loan and prime plus 1.70% per annum on its 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 4.95% to 7.50% per annum. The Company's notes payable have fixed interest rates ranging from 0% to 5.25%. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

#### Credit risk

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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

#### Credit risk (continued)

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

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2019, six (6) franchisees accounted for 82% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2018 - 6 franchises accounted for 51%). For the three months ended March 31, 2019, three (3) franchisees accounted for 23% of the Company's revenues related to franchising and licensing (December 31, 2018 - 3 franchisees accounted for 23%). As of March 31, 2019, there were no accounts and notes receivable over 90 days old (December 31, 2018 – nil).

##### *Receivables related to corporate operations*

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At March 31, 2019, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2019 and 2018, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2019, 2% of accounts receivable in this category was over 90 days old (December 31, 2018 – 5%). As at March 31, 2019, the Company recorded an allowance for credit losses from receivables of \$2,354 related to corporate operations (December 31, 2018 - \$2,407). The Company does not have any reason to believe it will not collect all remaining balances.

#### Foreign exchange risk

The Company has revenues and costs that are denominated in US dollars; this dependency on the US dollar causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar. The Company has significant dollar value assets denominated in US dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses. The Company recorded a foreign exchange loss of \$232,131 (March 31, 2018 – gain of \$152,586) during the three months ended March 31, 2019.

Exchange rates utilized (USD to CAD):

<b>As at,</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	\$	\$
Close rate	1.33	1.36
<b>For the three months ended,</b>	<b>March 31, 2019</b>	<b>March 31, 2018</b>
	\$	\$
Average rate	1.33	1.27



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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

#### Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs 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 \$5,347,207 at March 31, 2019 (December 31, 2018 - \$3,490,360), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$2,963,825 at March 31, 2019 (December 31, 2018 - \$10,778,632) including cash and cash equivalents of \$109,949 (December 31, 2018 - \$8,830,669).

<b>Principal</b>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2 – 5 years \$</b>	<b>Over 5 years \$</b>
Accounts payable and accrued liabilities	1,273,131	36,000	–	–
Notes payable	112,632	301,602	527,224	–
Long-term debt	345,327	980,939	3,320,930	–
Contingent consideration	274,457	1,276,172	348,250	–
Lease liabilities	152,728	429,375	1,250,149	–
<b>Interest</b>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2 – 5 years \$</b>	<b>Over 5 years \$</b>
Notes payable	8,736	20,820	17,636	–
Long-term debt	70,234	178,689	292,601	–
Lease liabilities	26,724	66,823	106,088	–
<b>Total principal and interest</b>	<b>Less than 3 months \$</b>	<b>3 months to 1 year \$</b>	<b>2 – 5 years \$</b>	<b>Over 5 years \$</b>
Accounts payable and accrued liabilities	1,273,131	36,000	–	–
Notes payable	121,368	322,425	544,860	–
Long-term debt	415,561	1,159,628	3,613,531	–
Contingent consideration	274,457	1,276,172	348,250	–
Lease liabilities	179,452	496,198	1,356,237	–

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

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

#### Fair value of financial instruments

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

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at March 31, 2019, amounted to \$493,606 (December 31, 2018 - \$90,036) with fair value estimated to be \$473,138 (December 31, 2018 - \$90,036), respectively.

### 21 Capital management

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

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

The Company has credit facilities with a banking institution which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. Refer to note 13 for the financial covenants.

### 22 Segment reporting

The business segments presented reflect the management structure of the Company and the way in which the Company's management reviews business performance. The Company operates three reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising and licensing), (2) the operation of corporately owned shredding businesses (Corporate locations) and (3) supporting the franchises and corporately owned shredding businesses (Corporate overhead).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

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

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>March 31, 2019</b>	<b>March 31, 2019</b>	<b>March 31, 2019</b>	<b>March 31, 2019</b>
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	174,148	827,399	(891,598)	109,949
Cash attributable to the Ad Fund	188,685	-	-	188,685
Trade receivables	199,228	1,907,569	70,520	2,177,317
Prepaid expenses	25,731	195,340	138,407	359,478
Notes receivable from franchisees	128,396	-	-	128,396
<b>Total current assets</b>	<b>716,188</b>	<b>2,930,308</b>	<b>(682,671)</b>	<b>2,963,825</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	365,210	-	-	365,210
Tangible assets	-	9,262,996	679,636	9,942,632
Intangible assets	17,332	9,739,003	19,804	9,776,139
Goodwill	-	7,417,401	-	7,417,401
Deferred tax asset	-	-	1,255,060	1,255,060
<b>Total assets</b>	<b>1,098,730</b>	<b>29,349,708</b>	<b>1,271,829</b>	<b>31,720,267</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	38,360	633,519	637,252	1,309,131
Current portion of deferred revenue	228,248	-	-	228,248
Current portion of contingent consideration	-	1,550,629	-	1,550,629
Current portion of notes payable	-	414,234	-	414,234
Current portion of long-term debt	-	1,326,266	-	1,326,266
Current portion of lease liabilities	-	402,600	116,099	518,699
<b>Total current liabilities</b>	<b>266,608</b>	<b>4,327,248</b>	<b>753,351</b>	<b>5,347,207</b>
<b>Non-current liabilities</b>				
Long-term debt	-	3,320,930	-	3,320,930
Long-term deferred revenue	364,516	-	-	364,516
Long-term contingent consideration	-	348,250	-	348,250
Long-term note payable	-	527,224	-	527,224
Long-term lease liabilities	-	781,171	532,384	1,313,555
<b>Total liabilities</b>	<b>631,124</b>	<b>9,304,823</b>	<b>1,285,735</b>	<b>11,221,682</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	December 31, 2018	December 31, 2018	December 31, 2018	December 31, 2018
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	148,241	1,324,593	7,357,835	8,830,669
Cash attributable to the Ad Fund	215,709	-	-	215,709
Trade receivables	188,885	1,207,416	65,261	1,461,562
Prepaid expenses	18,683	156,035	48,478	223,196
Notes receivable from franchisees	47,496	-	-	47,496
<b>Total current assets</b>	<b>619,014</b>	<b>2,688,044</b>	<b>7,471,574</b>	<b>10,778,632</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	42,450	-	-	42,450
Tangible assets	5,135	5,796,040	34,793	5,835,968
Intangible assets	17,275	5,168,715	-	5,185,990
Goodwill	-	4,812,448	-	4,812,448
Deferred tax asset	-	-	1,287,473	1,287,473
<b>Total assets</b>	<b>683,874</b>	<b>18,465,247</b>	<b>8,793,840</b>	<b>27,942,961</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	120,512	710,868	579,900	1,411,280
Current portion of deferred revenue	236,821	-	-	236,821
Current income taxes payable	-	-	53,543	53,543
Current portion of contingent consideration	-	253,180	-	253,180
Current portion of notes payable	-	281,813	-	281,813
Current portion of long-term debt	-	1,253,723	-	1,253,723
<b>Total current liabilities</b>	<b>357,333</b>	<b>2,499,584</b>	<b>633,443</b>	<b>3,490,360</b>
<b>Non-current liabilities</b>				
Long-term debt	-	3,184,768	-	3,184,768
Long-term deferred revenue	428,464	-	-	428,464
Long-term contingent consideration	-	415,436	-	415,436
Long-term note payable	-	476,397	-	476,397
<b>Total liabilities</b>	<b>785,797</b>	<b>6,576,185</b>	<b>633,443</b>	<b>7,995,426</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

#### Geographic information

	March 31, 2019	December 31, 2018
<b>Canada</b>	<b>\$</b>	<b>\$</b>
Tangible assets	679,636	34,793
Intangible assets	19,805	–
<b>United States</b>		
Notes receivable from franchisees	493,606	89,946
Tangible assets	9,262,996	5,801,175
Intangible assets	9,756,334	5,185,990
Goodwill	7,417,401	4,812,448
<b>Total</b>		
Notes receivable from franchisees	493,606	89,946
Tangible assets	9,942,632	5,835,968
Intangible assets	9,776,139	5,185,990
Goodwill	7,417,401	4,812,448

#### Revenue

All revenues were attributed to the United States.

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

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

	For the three months ended March 31, 2019			
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	Total \$
Revenue	695,344	4,507,462	–	5,202,806
Direct costs	–	(2,784,275)	–	(2,784,275)
Selling, general and administrative	(311,471)	(137,080)	(350,239)	(798,790)
Depreciation – tangible assets	–	(547,636)	(39,800)	(587,436)
Operating income (loss)	383,873	1,038,471	(390,039)	1,032,305
Amortization – intangible assets	(4,568)	(243,881)	–	(248,449)
Foreign exchange loss	–	–	(232,131)	(232,131)
Other income	–	131,254	–	131,254
Interest expense	–	(122,295)	–	(122,295)
Interest income	1,043	–	7,250	8,293
Income tax expense (recovery)	(10,966)	19,301	(32,000)	(23,665)
Net income (loss)	369,382	822,850	(646,920)	545,312

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2019

(expressed in Canadian dollars)

### 22 Segment reporting (continued)

	For the three months ended March 31, 2018			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue (restated)	647,839	2,506,453	–	3,154,292
Direct costs	–	(1,483,806)	–	(1,483,806)
Selling, general and administrative (restated)	(311,076)	(101,467)	(459,184)	(871,727)
Depreciation - tangible assets	(967)	(242,180)	(4,364)	(247,511)
Operating income (loss)	335,796	679,000	(463,548)	551,248
Amortization – intangible assets	(78,639)	(82,084)	–	(160,723)
Foreign exchange gain	–	–	152,586	152,586
Interest expense	–	(65,460)	–	(65,460)
Interest income	1,192	–	–	1,192
Income tax (expense) recovery	(34,945)	(26,650)	83,354	21,759
Net income (loss)	223,404	504,806	(227,608)	500,602

### 23 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of \$2,127 due from this franchise at March 31, 2019 (December 31, 2018 - \$nil). During the three months ended March 31, 2019, the Company earned royalties, service fees, franchise fees and interest income of \$42,912 (three months ended March 31, 2018 - \$35,610) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$6,880, which has an interest rate of 5% per annum.

### 24 Subsequent events

On April 11, 2019, the Company granted 162,400 stock options to key management personnel. The stock options were granted at a price of \$0.83 with a life of five years, expiring on April 10, 2024.

On May 3, 2019, the Company secured a senior credit facility of an aggregate amount of USD\$9.5 million with the Company's lender. The Company also revised the terms of its existing credit facilities including a reduction in the interest rate to prime rate plus 1.0%. The Company's lender advanced USD\$4.47 million on the USD\$9.5 million non-revolving demand loan bearing interest at a fixed rate of 3.50% with an amortization of 60 months.