

RediShred Capital Corp.

Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

August 29, 2016

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended June 30, 2016.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at June 30, 2016 and December 31, 2015

(expressed in Canadian dollars)

	June 30, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash	582,326	848,197
Cash attributable to the Advertising Fund (note 3)	167,588	176,129
Trade receivables	984,824	951,793
Prepaid expenses	236,662	101,751
Notes receivable from franchisees	89,472	84,235
	<u>2,060,872</u>	<u>2,162,105</u>
Non-current assets		
Notes receivable from franchisees	104,557	122,071
Equipment (note 4)	3,044,327	3,155,192
Intangible assets (note 5)	2,752,312	3,380,248
Goodwill (notes 6)	1,765,281	1,893,914
	<u>7,666,477</u>	<u>8,551,425</u>
Total assets	<u>9,727,349</u>	<u>10,713,530</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	798,107	959,562
Current taxes payable	13,183	14,035
Current portion of notes payable	41,751	44,254
Current portion of long-term debt (note 7)	720,228	1,087,933
Current portion of contingent consideration	48,375	34,600
Deferred revenue	58,050	-
	<u>1,679,694</u>	<u>2,140,384</u>
Non-current liabilities		
Long-term debt (note 7)	6,901,340	7,127,445
Long-term notes payable	66,631	94,146
Contingent consideration	16,125	34,600
Deferred tax liability	393,938	439,531
Convertible debenture (note 9)	349,794	347,412
	<u>7,727,828</u>	<u>8,043,134</u>
Total liabilities	<u>9,407,522</u>	<u>10,183,518</u>
Shareholders' Equity		
Capital Stock (note 8)	8,585,808	8,585,808
Contributed surplus	431,511	427,575
Accumulated other comprehensive loss	(550,544)	(220,738)
Deficit	(8,146,948)	(8,262,633)
	<u>319,827</u>	<u>530,012</u>
Total liabilities and shareholders' equity	<u>9,727,349</u>	<u>10,713,530</u>

Commitments (note 13)

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income (Loss)

For the three and six months ended June 30, 2016 and 2015

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue (note 10)	2,475,518	1,824,583	4,823,670	3,597,534
Corporate operating locations expenses (note 11)	(1,154,551)	(764,529)	(2,350,061)	(1,563,056)
Depreciation – equipment	(138,883)	(119,418)	(283,040)	(240,196)
Selling, general and administrative expenses (note 12)	(567,611)	(453,747)	(1,103,649)	(859,026)
Operating income	614,473	486,889	1,086,920	935,256
Amortization – intangible assets	(223,908)	(222,498)	(457,994)	(448,310)
Foreign exchange (loss) gain	(28,550)	(68,131)	(172,807)	493,533
(Loss) gain on sale of assets	-	(11)	-	3,085
Interest expense	(172,490)	(179,860)	(347,086)	(368,729)
Interest income	2,044	1,968	4,600	4,250
Income before income taxes	191,569	18,357	113,633	619,085
Income tax (expense) recovery	(3,302)	17,353	2,052	22,465
Net income for the period	188,267	35,710	115,685	641,550
Foreign currency translation (loss)	(9,944)	(5,473)	(329,806)	(111,945)
Comprehensive income (loss) for the period	178,323	30,237	(214,121)	529,605
Net income (loss) per share				
Basic and diluted	0.01	0.00	0.00	0.02
Weighted average number of common shares outstanding – basic and diluted	28,884,658	28,884,658	28,884,658	28,884,658
Weighted average number of common shares outstanding – diluted	29,480,050	28,906,754	29,480,050	28,906,754

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2016 and 2015

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 8)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity/deficiency \$
Balance – January 1, 2016	8,585,808	427,575	(220,738)	(8,262,633)	530,012
Net income for the period	–	–	–	115,685	115,685
Other comprehensive loss					
Foreign currency translation loss	–	–	(329,806)	–	(329,806)
Comprehensive income for the period	–	–	–	–	(214,121)
Stock-based compensation (note 8)	–	3,936	–	–	3,936
Balance – June 30, 2016	<u>8,585,808</u>	<u>431,511</u>	<u>(550,544)</u>	<u>(8,146,948)</u>	<u>319,827</u>
Balance – January 1, 2015	8,585,808	375,387	(172,610)	(9,154,872)	(366,287)
Net income for the period	–	–	–	641,550	641,550
Other comprehensive loss					
Foreign currency translation loss	–	–	(111,945)	–	(111,945)
Comprehensive income for the period	–	–	–	–	529,605
Stock-based compensation (note 8)	–	51,093	–	–	51,093
Balance – June 30, 2015	<u>8,585,808</u>	<u>426,480</u>	<u>(284,555)</u>	<u>(8,513,322)</u>	<u>214,411</u>

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

RediShred Capital Corp.
Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2016 and 2015
(expresses in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2016	2015	2016	2015
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Net income for the period	188,267	35,710	115,685	641,550
Items not affecting cash				
Amortization of equipment and intangible assets	360,950	343,094	722,779	692,190
Stock-based compensation	3,292	51,032	3,936	51,093
Unrealized foreign currency (gain) loss	50,471	(25,960)	93,111	(626,850)
Loss (gain) on sale of assets	-	11	-	(3,085)
Income tax recovery	(19,152)	(17,353)	(37,187)	(22,465)
	<u>583,828</u>	<u>386,534</u>	<u>898,324</u>	<u>732,433</u>
Net change in non-cash working capital balances				
(Increase) in trade receivables	(67,179)	(32,720)	(33,031)	(140,393)
Decrease (increase) in prepaid expenses	(39,360)	44,233	(134,911)	(29,004)
Decrease (increase) in notes receivable from franchisees	(22,366)	24,872	12,277	25,074
Increase in deferred revenue	58,050	-	58,050	-
Decrease in accounts payable and accrued liabilities	(265,909)	(282,508)	(161,455)	(146,516)
	<u>247,064</u>	<u>140,411</u>	<u>639,254</u>	<u>441,594</u>
Financing activities				
Repayment of long-term debt	(147,020)	(2,175)	(292,631)	(117,081)
Borrowings (repayment) on line of credit	-	179,794	(400,000)	(45,205)
Repayment of notes payable	(10,197)	(30,644)	(20,632)	(53,166)
	<u>(157,217)</u>	<u>146,975</u>	<u>(713,263)</u>	<u>(215,452)</u>
Investing activities				
Cash held by advertising fund	25,015	(23,983)	8,541	(13,152)
Purchase of capital assets	(81,721)	(26,366)	(163,994)	(55,755)
	<u>(56,706)</u>	<u>(50,349)</u>	<u>(155,453)</u>	<u>(68,907)</u>
Effect of foreign exchange rate changes on cash				
	<u>(6,945)</u>	<u>(2,993)</u>	<u>(36,409)</u>	<u>20,886</u>
Net change in cash for the period	<u>26,196</u>	<u>234,044</u>	<u>(265,871)</u>	<u>178,121</u>
Cash – Beginning of period	<u>556,130</u>	<u>310,289</u>	<u>848,197</u>	<u>366,212</u>
Cash – End of period	<u>582,326</u>	<u>544,333</u>	<u>582,326</u>	<u>544,333</u>

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

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

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

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2015, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at June 30, 2016. 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, 2015 and have been consistently applied in the preparation of these consolidated financial statements. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

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

The interim consolidated financial statements of the Company for the three and six months ended June 30, 2016 were authorized for issue in accordance with a resolution of the Directors on August 26, 2016.

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 June 30, 2016, the cash attributable to the Ad Fund amounted to \$167,588 (December 31, 2015 - \$176,129).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

4 Equipment

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -		
			containers	chassis	box		
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2015	139,170	71,997	358,403	931,060	2,242,363	66,206	3,809,199
Additions	6,602	9,468	56,301	97,512	278,338	-	448,221
Additions acquired in business combination	-	6,920	13,840	34,600	145,320	-	200,680
Sale of assets	-	-	-	(116,422)	(222,573)	(20,760)	(359,755)
Foreign exchange	8,106	4,192	68,985	187,004	443,022	11,441	722,750
As at December 31, 2015	153,878	92,577	497,529	1,133,754	2,886,470	56,887	4,821,095
Additions	4,808	14,676	39,155	77,400	224,756	16,315	377,110
Foreign exchange	(3,678)	(2,307)	(34,066)	(80,498)	(201,835)	(3,450)	(325,834)
As at June 30, 2016	155,008	104,946	502,618	1,130,656	2,909,391	69,752	4,872,371

Accumulated depreciation	Computer	Furniture &	Bins &	Shredding	Shredding	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -		
			containers	chassis	box		
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2015	126,249	68,037	148,679	226,806	599,501	45,451	1,214,723
Depreciation	8,247	2,883	90,053	120,171	289,336	8,304	518,994
Sale of assets	-	-	-	(98,829)	(181,661)	(17,108)	(297,598)
Foreign exchange	6,498	3,438	29,068	52,962	130,327	7,491	229,784
As at December 31, 2015	140,994	74,358	267,800	301,110	837,503	44,138	1,665,903
Depreciation	3,699	1,310	44,574	62,219	153,748	9,025	274,575
Foreign exchange	(3,115)	(1,655)	(18,463)	(23,946)	(62,671)	(2,584)	(112,434)
As at June 30, 2016	141,578	74,013	293,911	339,383	928,580	50,579	1,828,044

Net book value	Computer	Furniture &	Bins &	Shredding	Shredding	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -		
			containers	chassis	box		
As at December 31, 2015	12,884	18,219	229,729	832,644	2,048,967	12,749	3,155,192
As at June 30, 2016	13,430	30,933	208,707	791,273	1,980,811	19,173	3,044,327

During the six months ended June 30, 2016, the Company purchased a shredding vehicle, computers, furniture, shredding containers, a delivery vehicle and upgraded shredding equipment. The foreign exchange adjustment is a result of the translation of corporate equipment from US functional currency dollars to Canadian presentation dollars at June 30, 2016 and December 31, 2015. Depreciation related to the corporate stores and the franchising and licensing business is included in the statement of comprehensive income.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

5 Intangible assets

Cost	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2015	2,680,301	978,000	1,672,500	1,102,239	2,079,286	8,512,326
Additions	-	-	-	-	335,620	335,620
Foreign exchange	540,142	-	-	209,792	395,760	1,145,694
As at December 31, 2015	3,220,443	978,000	1,672,500	1,312,031	2,810,666	9,993,640
Additions	-	-	-	-	10,846	10,846
Foreign exchange	(229,432)	-	-	(89,112)	(190,898)	(509,442)
As at June 30, 2016	2,991,011	978,000	1,672,500	1,222,919	2,630,614	9,495,044

Accumulated amortization	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2015	1,931,544	668,291	1,142,877	749,957	514,950	5,007,619
Amortization	273,297	97,800	167,244	181,476	247,571	967,388
Foreign exchange	397,631	-	-	142,742	98,012	638,385
As at December 31, 2015	2,602,472	766,091	1,310,121	1,074,175	860,533	6,613,392
Amortization	126,100	48,900	83,622	58,418	131,164	448,204
Foreign exchange	(187,460)	-	-	(72,957)	(58,447)	(318,864)
As at June 30, 2016	2,541,112	814,991	1,393,743	1,059,636	933,250	6,742,732

Net book value	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at December 31, 2015	617,971	211,909	362,379	237,856	1,950,133	3,380,248
As at June 30, 2016	449,899	163,009	278,757	163,283	1,697,364	2,752,312

During the six months ended June 30, 2016 the Company purchased a customer list from one of its franchisee's related to clients in its corporate territory. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at June 30, 2016 and December 31, 2015. 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.

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Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill as at June 30, 2016 and December 31, 2015:

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Opening balance	1,893,914	1,591,079
Foreign currency translation	(128,633)	302,835
Closing balance	<u>1,765,281</u>	<u>1,893,914</u>

7 Long-term debt

As at June 30, 2016 and December 31, 2015 long-term debt is comprised of:

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Line of credit (i)	5,074,578	5,474,578
Less: deferred financing charges	(3,593)	(7,277)
Line of credit net of deferred financing charges	5,070,985	5,467,301
Truck loans (ii)	1,042,276	1,035,605
Finance lease liability (iii)	522,618	626,712
Term loans (iv)	985,689	1,085,760
Total long-term debt	7,621,568	8,215,378
Less: current portion	(720,228)	(1,087,933)
Total	<u>6,901,340</u>	<u>7,127,445</u>

(i) Line of Credit

The line of credit was entered into on November 27, 2009 with a related party entity (see note 17) for a maximum amount of \$4 million. The line of credit was originally repayable on November 27, 2014, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets. Deferred financing charges in respect of this facility are charged to expense over the term of the facility. During the year ended December 31, 2011, the line of credit limit was increased to \$5.37 million. During the year ended December 31, 2012, the line of credit was increased to \$6.03 million. The terms of the agreement remained unchanged upon increasing the line of credit. The Company has drawn from its line of credit in order to finance the purchase of its corporate locations including Syracuse, Albany, and Milwaukee in 2010, New York City and Miami in 2012 and for general business purposes. In September of 2013, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional three years to November 27, 2017. The other terms of the agreement remained unchanged upon extending the facility's term. The total unamortized transactions costs as at September 2013 are amortized over the extended term of four years, ending November 27, 2017. The Company has \$958,516 available for use on its line as of June 30, 2016.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

7 Long-term debt (continued)

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at June 30, 2016:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Maturity
August 3, 2012	US\$125,556	US\$2,545	8.00%	CAD\$148,483	CAD\$43,758 US\$33,921	August 3, 2017
January 3, 2013	US\$119,906	US\$2,382	7.00%	CAD\$203,046	CAD\$55,064 US\$42,685	January 5, 2018
January 31, 2013	US\$171,516	US\$3,407	7.00%	CAD\$205,491	CAD\$82,662 US\$64,079	February 5, 2018
October 24, 2013	US\$187,950	US\$3,731	7.00%	CAD\$176,318	CAD\$123,847 US\$96,005	October 24, 2018
September 16, 2014	US\$204,000	US\$4,055	7.00%	CAD\$261,683	CAD\$181,520 US\$140,713	September 16, 2019
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$266,697	CA\$244,190 US\$189,295	June 23, 2020
December 22, 2015	US\$80,000	US\$2,480	7.50%	CAD\$60,061	CA\$87,273 US\$67,654	December 5, 2018
June 5, 2016	US\$176,546	US\$3,904	6.393%	CAD\$246,403	CAD\$223,962 US\$173,614	September 5, 2020

(1) Blended monthly payments of principal and interest.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

7 Long-term debt (continued)

iii) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as at June 30, 2016:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Residual	Maturity
November 15, 2013	US\$137,035	US\$2,296	7.95%	CAD\$176,938	CAD\$115,613 US\$89,622	US\$37,680	December 20, 2018
July 17, 2014	US\$226,432	US\$3,861	7.62%	CAD\$239,162	CAD\$215,138 US\$166,774	US\$50,610	August 20, 2019
December 22, 2015	US\$170,000	US\$4,364	6.75%	CAD\$151,575	CAD\$191,867 US\$148,733	US\$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest

Future minimum finance lease payments at June 30, 2016, stated in Canadian dollars, were as follows:

	2016 \$	2017 \$	2018 \$	2019 \$	Total \$
Lease payments	81,441	162,881	208,527	144,019	596,868
Finance charges	(18,316)	(29,517)	(22,078)	(4,339)	(74,250)
Net present values	63,125	133,364	186,449	139,680	522,618

The future minimum lease payments have been translated at the closing rate at June 30, 2016 using an exchange rate of USD\$1.00 = CAD\$1.29.

iv) Term loans

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with related parties (see note 17):

- A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The estimated fair value of the loan on June 30, 2016 is CAD\$525,750;
- A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The estimated fair value of the loan on June 30, 2016 is CAD\$96,750 (US\$75,000);

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

7 Long-term debt (continued)

- (c) A 4 year loan and security agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on June 30, 2016 is CAD\$32,955;
- (d) A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on June 30, 2016 is CAD\$21,256 (US\$16,478); and
- (e) A 4 year loan and security agreement in the amount of US\$300,000, repayable with monthly blended payments of principal and interest of US\$7,283 maturing July 22, 2019. The loan bears interest at 7.5% per annum and is secured by three shredding vehicles with a carrying value of CAD\$344,269 at June 30, 2016. The value of the loan on June 30, 2016 is CAD\$308,978 (US\$239,518).

8 Capital stock

a) Authorized

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

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

b) Issued and fully paid

For the three and six months ended June 30, 2016 and the year ended December 31, 2015, there were no changes in issued common shares of the Company.

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

	<u>Common stock</u>	
	Number	\$
Balance, December 31, 2015 and June 30, 2016	<u>28,884,658</u>	<u>8,585,808</u>

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three and six months ended June 30, 2016, was 28,884,658 (December 31, 2015 - 28,884,658). The diluted weighted average number of shares outstanding for the six months ended June 30, 2016 was 29,480,050 (December 31, 2015 - 30,174,285).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

8 Capital stock (continued)

d) Stock options

At June 30, 2016, the Company has 1,855,000 options outstanding (December 31, 2015 – 1,830,000) and a weighted average exercise price of \$0.17 (December 31, 2015 - \$0.17). During the six months ended June 30, 2016, no stock options expired (for the six months ended June 30, 2015 – 140,000). There were 25,000 stock options granted during the six months ended June 30, 2016 (for the six months ended June 30, 2015 – 700,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$3,936 (for the six months ended June 30, 2015 – \$51,093).

9 Convertible debentures

On December 31, 2012, the Company issued \$375,000 convertible, unsecured subordinated, debentures. The debentures have a five-year term and a coupon of 7.5% interest per annum. Each \$1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of \$0.30 per share at any time prior to maturity. Conversion may occur at any time prior to the maturity date of December 31, 2017. The Company may, at its option, redeem the debentures, in whole or in part, at a redemption price equal to the principal amount plus accrued interest and unpaid interest. Interest of 7.5% per annum will be paid annually on the anniversary of the grant date. Debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case such deferred interest payment shall accrue additional interest at 7.5% per annum. The convertible debentures contain two components: liability and equity elements. The equity element is presented in equity under the label of 'issue of convertible debentures' as contributed surplus. The effective interest rate of the liability element on initial recognition is 9.5% per annum (2015 – 9.5%).

	2016	2015
	\$	\$
Opening balance of liability component net of transaction costs	347,412	342,645
Accretion expense	2,382	4,767
Closing balance of liability component net of transaction costs	<u>349,794</u>	<u>347,412</u>
Equity component net of transaction costs	27,710	27,710
Deferred tax liability related to the equity component	7,633	7,633
Equity component net of transaction costs and tax	<u>20,077</u>	<u>20,077</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

10 Revenue

The revenue earned by the Company for the three and six months ended June 30, 2016 and 2015 is broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Royalties	457,819	378,989	911,311	750,980
Franchise fees	171,836	–	171,836	24,680
License fees	3,170	2,210	5,806	4,429
Shredding services	1,588,125	1,198,858	3,230,640	2,335,531
Sale of paper and recycled products	254,568	244,526	504,077	481,914
Total revenue	2,475,518	1,824,583	4,823,670	3,597,534

11 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three and six months ended June 30, 2016 and 2015 are broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Shredding expenses	273,917	184,305	524,896	395,294
Employee wages expense	561,389	371,631	1,131,702	726,159
Employee benefit expense	97,919	67,046	216,175	152,554
Office and administration expense	221,326	141,547	477,288	289,049
Total corporate operating expenses	1,154,551	764,529	2,350,061	1,563,056

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

12 Selling, general and administrative expenses by nature

The selling, general and administrative expenses incurred by the Company for the three and six months ended June 30, 2016 and 2015 are broken down as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee wages and benefits	259,172	179,301	493,951	361,887
Share-based compensation	3,292	51,034	3,936	51,093
Professional fees	54,988	45,413	143,465	99,837
Travel	40,375	25,957	75,685	55,161
Technology	92,684	81,306	191,534	161,471
Rent and office expense	31,348	14,450	64,179	40,944
Selling and development	31,309	23,690	47,930	43,254
Brokers fees	39,461	-	39,461	-
Amortization of deferred financing charges	1,842	1,842	3,684	3,684
Other	13,140	30,754	39,824	41,695
Total selling, general and administrative expenses	567,611	453,747	1,103,649	859,026

Compensation of key management

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

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Wages and benefits	116,813	84,012	214,013	171,119
Share-based compensation	3,356	18,202	3,936	18,202
Total	120,169	102,214	217,949	189,321

For the three and six months ended June 30, 2016, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, and Senior Vice President. For the three and six months ended June 30, 2015, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer and Executive Vice President.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

13 Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2018. Additionally, the Company leases facilities in Albany, which expires on March 31, 2017, Syracuse, which expires on September 30, 2020, Milwaukee, which expires on August 31, 2017, New York City, which expires on October 31, 2017, Fort Lauderdale, which expires on December 31, 2016 and Charlotte, which expires on April 30, 2017. Certain contracts include renewal options for various periods of time. For the six months ended June 30, 2016, the Company incurred \$140,577 (six months ended June 30, 2015 - \$117,902) in lease payments as an expense included in 'selling, general and administrative expenses' and 'corporate operating expenses.' For the three months ended June 30, 2016, the Company incurred \$70,205 (three months ended June 30, 2015 - \$50,649) in lease payments.

Non-cancellable operating lease rentals are payable as follows:

	\$
Less than 1 year	247,101
Between 1 and 5 years	<u>179,191</u>
Total	<u><u>426,292</u></u>

14 Financial instruments and fair values

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

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

Interest rate risk

The Company's cash is subject to cash flow risk, as it earns interest at prevailing and fluctuating market rates. The Company has a fixed rate on notes receivable from franchisees ranging from 4.25% to 8.25% per annum, and the line of credit facility has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 6.398% to 8.00% per annum. The loans in connection with the Charlotte purchase have fixed interest rates from 7.5% to 9% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

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

June 30, 2016

(expressed in Canadian dollars)

Financial instruments and fair values (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 and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of June 30, 2016, 7 franchisees accounted for 68% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2015 - 6 franchisees accounted for 65%). For the six months ended June 30, 2016, 3 franchisees accounted for 25% of the Company's revenues related to franchising and licensing (December 31, 2015 - 3 franchisees accounted for 26%). As of June 30, 2016, 7% of accounts and notes receivable were over 90 days old and related to one franchisee (December 31, 2015 – 3%).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At June 30, 2016 and December 31, 2015, no customer accounted for more than 10% of the accounts receivable balance. For the six months ended June 30, 2016 and June 30, 2015, no customer accounted for more than 10% of the Company's revenues in this category. As of June 30, 2016, 11% of accounts receivable in this category was over 90 days old (December 31, 2015 – 12%). The Company has recorded an allowance for credit losses from receivables related to corporate operations of \$20,000 (December 31, 2015 - \$1,067). The Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

Subsidiaries of the Company have loans denominated in a currency other than their functional currency of CAD\$558,705 as at June 30, 2016 (December 31, 2015 – CAD\$571,807). Based on the financial liability held in the United States and denominated in CAD at June 30, 2016, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately \$25,000 (December 31, 2015 - \$25,000).

The Company realized a foreign exchange loss of \$172,807 during the six months ended June 30, 2016 (June 30, 2015 – gain \$493,533). The Company realized a foreign exchange loss of \$28,550 during the three months ended June 30, 2016 (June 30, 2015 – loss \$68,131).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses up to fiscal year ended 2012, and as a result has a deficit of \$8.056 million at June 30, 2016. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements.

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The Company does not have any financial covenants to comply with.

The current liabilities of \$1,679,694 at June 30, 2016 (December 31, 2015 - \$2,140,384), are due to be settled within one year from the date of the Statement of Financial Position. The Company has current assets of \$2,060,872 at June 30, 2016 (December 31, 2015 - \$2,162,105) including a cash balance of \$582,326 (December 31, 2015 - \$848,197).

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	750,838	–	–	–
Notes payable	10,244	31,507	66,631	–
Convertible debentures	–	–	349,794	–
Long-term debt	151,524	572,297	6,901,340	–
Contingent consideration	16,125	32,250	16,125	–

Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	1,355	3,289	2,976	–
Convertible debentures	–	28,125	14,062	–
Long-term debt	38,920	650,347	702,661	–

Liquidity risk

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	750,838	–	–	–
Notes payable	11,599	34,796	69,607	–
Convertible debentures	–	28,125	363,856	–
Long-term debt	190,444	1,222,644	7,604,001	–
Contingent consideration	16,125	32,250	16,125	–

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

14 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 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 June 30, 2016, amounted to \$194,030 (December 31, 2015 - \$206,306) with fair value estimated to be \$163,870 (December 31, 2015 - \$177,627), respectively.

15 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

16 Segment reporting

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	126,686	349,769	105,871	582,326
Cash attributable to the Ad Fund	167,588	–	–	167,588
Trade receivables	175,482	765,729	43,613	984,824
Prepaid expenses	42,487	161,502	32,673	236,662
Notes receivable from franchisees	89,472	–	–	89,472
Total current assets	601,715	1,277,000	182,157	2,060,872
Non-current assets				
Notes receivable from franchisees	104,557	–	–	104,557
Equipment	–	3,026,752	17,575	3,044,327
Intangible assets	542,885	1,767,651	441,776	2,752,312
Goodwill	–	1,765,281	–	1,765,281
Total assets	1,249,157	7,836,684	641,508	9,727,349
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	162,554	303,341	332,212	798,107
Current taxes payable	–	–	13,183	13,183
Current portion of notes payable	–	41,751	–	41,751
Current portion of long-term debt	–	720,228	–	720,228
Current portion of contingent consideration	–	48,375	–	48,375
Deferred revenue	58,050	–	–	58,050
Total current liabilities	220,604	1,113,695	345,395	1,679,694
Non-current liabilities				
Long-term debt	–	6,901,340	–	6,901,340
Long-term notes payable	–	66,631	–	66,631
Contingent consideration	–	16,125	–	16,125
Deferred tax liability	393,938	–	–	393,938
Convertible debentures	–	–	349,794	349,794
Total liabilities	614,542	8,097,791	695,189	9,407,522

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

16 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	December 31, 2015	December 31, 2015	December 31, 2015	December 31, 2015
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	192,172	362,322	293,703	848,197
Cash attributable to the Ad Fund	176,129	-	-	176,129
Trade receivables	156,396	774,308	21,089	951,793
Prepaid expenses	8,808	67,192	25,751	101,751
Notes receivable from franchisees	84,235	-	-	84,235
Total current assets	617,740	1,203,822	340,543	2,162,105
Non-current assets				
Notes receivable from franchisees	122,071	-	-	122,071
Equipment	-	3,141,939	13,253	3,155,192
Intangible assets	617,971	2,187,980	574,297	3,380,248
Goodwill	-	1,893,914	-	1,893,914
Total assets	1,357,782	8,427,655	928,093	10,713,530
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	387,953	178,365	393,244	959,562
Current taxes payable	14,035	-	-	14,035
Current portion of contingent consideration	-	34,600	-	34,600
Current portion of notes payable	-	44,254	-	44,254
Current portion of long-term debt	-	1,087,933	-	1,087,933
Total current liabilities	401,988	1,345,152	393,244	2,140,384
Non-current liabilities				
Long-term debt	-	7,127,445	-	7,127,445
Note Payable	-	94,146	-	94,146
Contingent consideration	-	34,600	-	34,600
Convertible debenture	-	-	347,412	347,412
Deferred tax liability	439,531	-	-	439,531
Total liabilities	841,519	8,601,343	740,656	10,183,518

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

16 Segment reporting (continued)

Geographic information

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Canada	\$	\$
Equipment	17,575	13,253
Intangible assets	441,776	574,297
United States		
Notes receivable from franchisees	194,029	206,306
Equipment	3,026,752	3,141,939
Intangible assets	2,310,536	2,805,951
Goodwill	1,765,281	1,893,914
Total		
Notes receivable from franchisees	194,029	206,306
Equipment	3,044,327	3,155,192
Intangible assets	2,752,312	3,380,248
Goodwill	1,765,281	1,893,914

Revenue

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

For the three months ended,	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	\$	\$
United States		
Royalties	457,819	378,989
Franchise fees	171,836	–
Shredding services	1,588,125	1,198,858
Sale of paper and recycled products	254,568	244,526
Middle East		
License fees	3,170	2,210

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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(expressed in Canadian dollars)

16 Segment reporting (continued)

For the six months ended,	June 30, 2016	June 30, 2015
	\$	\$
United States		
Royalties	911,311	750,980
Franchise fees	171,836	24,680
Shredding services	3,230,640	2,335,531
Sale of paper and recycled products	504,077	481,914
Middle East		
License fees	5,806	4,429

Net income (loss) by operating segment

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

	For the three months ended June 30, 2016			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	632,825	1,842,693	-	2,475,518
Direct costs	-	(1,154,551)	-	(1,154,551)
Corporate overhead	(266,413)	(154,438)	(146,760)	(567,611)
Depreciation	-	(138,883)	-	(138,883)
Operating income	366,412	394,821	(146,760)	614,473
Amortization	(147,313)	(76,595)	-	(223,908)
Foreign exchange loss	-	-	(28,550)	(28,550)
Interest expense	-	(164,270)	(8,220)	(172,490)
Interest income	2,044	-	-	2,044
Income tax expense	(3,302)	-	-	(3,302)
Net income	217,841	153,956	(183,530)	188,267

	For the three months ended June 30, 2015			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	381,199	1,443,384	-	1,824,583
Direct costs	-	(764,529)	-	(764,529)
Corporate overhead	(202,781)	(117,975)	(132,991)	(453,747)
Depreciation	-	(119,418)	-	(119,418)
Operating income	178,418	441,462	(132,991)	486,889
Amortization	(144,474)	(78,024)	-	(222,498)
Foreign exchange loss	-	-	(68,131)	(68,131)
Loss on sale of assets	-	(11)	-	(11)
Interest expense	-	(171,640)	(8,220)	(179,860)
Interest income	1,968	-	-	1,968
Income tax recovery	17,353	-	-	17,353
Net income (loss)	53,265	191,787	(209,342)	35,710

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

16 Segment reporting (continued)

Net income (loss) by operating segment (continued)

	For the six months ended June 30, 2016			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,088,953	3,734,717	–	4,823,670
Direct costs	–	(2,350,061)	–	(2,350,061)
Corporate overhead	(515,659)	(312,952)	(275,038)	(1,103,649)
Depreciation	–	(283,040)	–	(283,040)
Operating income	573,294	788,664	(275,038)	1,086,920
Amortization	(299,962)	(158,032)	–	(457,994)
Foreign exchange (loss)	–	–	(172,807)	(172,807)
Interest expense	–	(330,646)	(16,440)	(347,086)
Interest income	4,600	–	–	4,600
Income tax recovery	2,052	–	–	2,052
Net income (loss)	279,984	299,986	(464,285)	115,685

	For the six months ended June 30, 2015			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	780,089	2,817,445	–	3,597,534
Direct costs	–	(1,563,056)	–	(1,563,056)
Corporate overhead	(422,087)	(212,550)	(224,389)	(859,026)
Depreciation	–	(240,196)	–	(240,196)
Operating income	358,002	801,643	(224,389)	935,256
Amortization	(291,731)	(156,579)	–	(448,310)
Foreign exchange gain	–	–	493,533	493,533
Interest expense	–	(352,289)	(16,440)	(368,729)
Interest income	4,250	–	–	4,250
Gain on sale of assets	–	3,085	–	3,085
Income tax recovery	22,465	–	–	22,465
Net income	92,986	295,860	252,704	641,550

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2016

(expressed in Canadian dollars)

17 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. Included in accounts receivable at June 30, 2016, is \$2,354 (December 31, 2015 - \$2,598) due from this franchise. During the six months ended June 30, 2016, the Company earned royalty and service fees amounting to \$62,232 (2015 - \$53,031) from this franchise. In June 2016, this Director was awarded the Orlando, Florida franchise for a purchase price of US \$50,000. The Company financed 50% of the purchase price. Included in notes receivable from franchisees is a US \$25,000 three year note receivable at an interest rate of 5% per annum.

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

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

In order to finance the purchase of the Charlotte location, the Company entered into loan agreements with related parties (refer to note 7):