

RediShred Capital Corp.

Consolidated Interim Financial Statements

September 30, 2016 and 2015

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

November 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 September 30, 2016.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at September 30, 2016 and December 31, 2015

(expressed in Canadian dollars)

	September 30, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash	898,177	848,197
Cash attributable to the Advertising Fund (note 3)	159,041	176,129
Trade receivables	1,002,309	951,793
Prepaid expenses	164,015	101,751
Notes receivable from franchisees	84,512	84,235
	<hr/> 2,308,054	<hr/> 2,162,105
Non-current assets		
Notes receivable from franchisees	98,020	122,071
Equipment (note 4)	3,257,037	3,155,192
Intangible assets (note 5)	2,566,407	3,380,248
Goodwill (notes 6)	1,796,755	1,893,914
	<hr/> 7,718,219	<hr/> 8,551,425
Total assets	<hr/> 10,026,273	<hr/> 10,713,530
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	948,710	959,562
Current taxes payable	13,315	14,035
Current portion of notes payable	43,027	44,254
Current portion of long-term debt (note 7)	788,241	1,087,933
Current portion of contingent consideration	57,444	34,600
	<hr/> 1,850,737	<hr/> 2,140,384
Non-current liabilities		
Long-term debt (note 7)	6,991,191	7,127,445
Long-term notes payable	56,861	94,146
Contingent consideration	8,206	34,600
Deferred tax liability	351,515	439,531
Convertible debenture (note 9)	350,985	347,412
	<hr/> 7,758,758	<hr/> 8,043,134
Total liabilities	<hr/> 9,609,495	<hr/> 10,183,518
Shareholders' Equity		
Capital Stock (note 8)	8,587,995	8,585,808
Contributed surplus	430,738	427,575
Accumulated other comprehensive loss	(530,596)	(220,738)
Deficit	(8,071,359)	(8,262,633)
	<hr/> 416,778	<hr/> 530,012
Total liabilities and shareholders' equity	<hr/> 10,026,273	<hr/> 10,713,530

Commitments (note 13)

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2016 and 2015

(expressed in Canadian dollars)

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue (note 10)	2,418,386	1,974,509	7,242,056	5,572,043
Corporate operating locations expenses (note 11)	(1,162,739)	(908,449)	(3,512,800)	(2,471,505)
Depreciation – equipment	(160,070)	(120,789)	(443,110)	(360,985)
Selling, general and administrative expenses (note 12)	(514,899)	(417,321)	(1,618,548)	(1,276,347)
Operating income	580,678	527,950	1,667,598	1,463,206
Amortization – intangible assets	(226,242)	(238,281)	(684,236)	(686,591)
Foreign exchange gain (loss)	100,170	201,440	(72,637)	694,973
Gain (loss) on sale of assets (note 4)	(143,609)	45,556	(143,609)	48,641
Interest expense	(207,704)	(193,578)	(554,790)	(562,307)
Interest income	1,530	4,312	6,130	8,562
Income before income taxes	104,823	347,399	218,456	966,484
Income tax recovery (expense)	(29,234)	15,861	(27,182)	38,326
Net income for the period	75,589	363,260	191,274	1,004,810
Foreign currency translation gain (loss)	19,948	45,975	(309,858)	(65,972)
Comprehensive income (loss) for the period	95,537	409,235	(118,584)	938,838
Net income per share				
Basic and diluted	0.003	0.013	0.007	0.035
Weighted average number of common shares outstanding – basic	28,886,941	28,884,658	28,885,424	28,884,658
Weighted average number of common shares outstanding – diluted	29,579,222	28,967,158	29,577,705	28,967,158

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 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	–	–	–	191,274	191,274
Other comprehensive loss					
Foreign currency translation loss	–	–	(309,858)	–	(309,858)
Comprehensive income (loss) for the period	–	–	–	–	(118,584)
Issue of shares	2,187	(2,187)			–
Stock-based compensation (note 8)	–	5,350	–	–	5,350
Balance – September 30, 2016	8,587,995	430,738	(530,596)	(8,071,359)	416,778
Balance – January 1, 2015	8,585,808	375,387	(172,610)	(9,154,872)	(366,287)
Net income for the period	–	–	–	1,004,810	1,004,810
Other comprehensive loss					
Foreign currency translation loss	–	–	(65,972)	–	(65,972)
Comprehensive income for the period	–	–	–	–	938,838
Stock-based compensation (note 8)	–	51,547	–	–	51,547
Balance – September 30, 2015	8,585,808	426,934	(238,582)	(8,150,062)	624,098

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2016 and 2015

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2016	2015	2016	2015
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Net income for the period	75,589	363,260	191,274	1,004,810
Items not affecting cash				
Amortization of equipment and intangible assets	391,158	359,071	1,130,918	1,047,576
Stock-based compensation	1,414	453	5,350	51,547
Unrealized foreign currency (gain) loss	(96,373)	(328,500)	167,962	(663,447)
(Gain) loss on sale of assets	143,609	(45,545)	143,609	(48,641)
Income tax recovery	(18,482)	(15,861)	(65,919)	(38,326)
	496,915	332,878	1,573,194	1,353,519
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	375	53,582	(162,259)	(86,810)
Decrease (increase) in prepaid expenses	76,830	6,623	(66,547)	(22,384)
Decrease in notes receivable from franchisees	15,060	965	13,281	26,039
(Decrease) in deferred revenue	(59,085)	-	-	-
Increase in deposits	-	124,709	-	124,709
Increase (decrease) in accounts payable and accrued liabilities	123,576	154,305	(56,738)	7,789
Net cash provided by operations	653,671	673,062	1,300,931	1,402,862
Financing activities				
Borrowings (repayment) of long-term debt	219,886	(126,529)	165,074	(126,442)
Repayment on line of credit	(100,000)	(203,158)	(500,000)	(244,679)
Repayment of notes payable	(10,498)	(25,741)	(31,628)	(78,907)
	109,388	(355,428)	(366,554)	(450,028)
Investing activities				
Cash held by advertising fund	11,614	(31,021)	8,108	(44,173)
Sale of capital assets	264,400	81,900	264,400	81,900
Purchase of capital assets	(724,646)	(36,681)	(1,119,410)	(368,663)
	(448,632)	14,198	(846,902)	(330,936)
Effect of foreign exchange rate changes on cash	1,424	45,973	(37,495)	(65,972)
Net change in cash for the period	315,851	377,805	49,980	555,926
Cash – Beginning of period	582,326	544,333	848,197	366,212
Cash – End of period	898,177	922,138	898,177	922,138

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

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

September 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 September 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 nine months ended September 30, 2016 were authorized for issue in accordance with a resolution of the Directors on November 29, 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 September 30, 2016, the cash attributable to the Ad Fund amounted to \$159,041 (December 31, 2015 - \$176,129).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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	38,814	14,905	61,676	238,719	737,650	16,606	1,108,370
Sale of assets	-	-	-	(182,292)	(453,117)	-	(635,409)
Foreign exchange	(2,778)	(1,742)	(25,731)	(60,802)	(152,450)	(2,606)	(246,109)
As at September 30, 2016	189,914	105,740	533,474	1,129,379	3,018,553	70,887	5,047,947

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	4,986	2,589	69,313	97,414	251,340	14,470	440,112
Sale of assets	-	-	-	(65,922)	(164,256)	-	(230,178)
Foreign exchange	(2,354)	(1,251)	(13,946)	(18,087)	(47,337)	(1,952)	(84,927)
As at September 30, 2016	143,626	75,696	323,167	314,515	877,250	56,656	1,790,910

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 September 30, 2016	46,288	30,044	210,307	814,864	2,141,303	14,231	3,257,037

During the nine months ended September 30, 2016, the Company purchased two new shredding vehicles and traded in two used shredding vehicles. In addition, the Company purchased a used 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 September 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

September 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	-	-	-	-	11,040	11,040
Foreign exchange	(173,295)	-	-	(67,309)	(144,190)	(384,794)
As at September 30, 2016	3,047,148	978,000	1,672,500	1,244,722	2,677,516	9,619,886

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	192,523	73,350	125,433	89,189	200,437	680,932
Foreign exchange	(141,593)	-	-	(55,106)	(44,146)	(240,845)
As at September 30, 2016	2,653,402	839,441	1,435,554	1,108,258	1,016,824	7,053,479

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 September 30, 2016	393,746	138,559	236,946	136,464	1,660,692	2,566,407

During the nine months ended September 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 September 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

6 Goodwill

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Opening balance	1,893,914	1,591,079
Foreign currency translation	(97,159)	302,835
Closing balance	<u>1,796,755</u>	<u>1,893,914</u>

7 Long-term debt

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Line of credit (i)	4,974,578	5,474,578
Less: deferred financing charges	(1,751)	(7,277)
Line of credit net of deferred financing charges	4,972,827	5,467,301
Truck loans (ii)	1,638,910	1,413,887
Finance lease liability (iii)	500,103	626,712
Term loans (iv)	667,592	707,478
Total long-term debt	7,779,432	8,215,378
Less: current portion	(788,241)	(1,087,933)
Total	<u>6,991,191</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 bears interest at a fixed rate of 10% per annum, and is 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, 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 all of its corporate locations with the exception of Charlotte and for general business purposes. In September of 2013, the Company executed 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. 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 \$1,058,516 available for use on its line as of September 30, 2016.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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 September 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\$144,924	CAD\$35,340 US\$26,916	August 3, 2017
October 24, 2013	US\$187,950	US\$3,731	7.00%	CAD\$173,311	CAD\$113,539 US\$86,473	October 24, 2018
September 16, 2014	US\$204,000	US\$4,055	7.00%	CAD\$258,003	CAD\$172,041 US\$131,029	September 16, 2019
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$263,951	CA\$234,952 US\$178,943	June 23, 2020
July 22, 2015	US\$300,000	US\$4,520	6.75%	CAD\$329,365	CA\$291,681 US\$222,148	June 22, 2019
December 22, 2015	US\$80,000	US\$2,480	7.50%	CAD\$47,980	CA\$80,675 US\$61,443	December 5, 2018
July 5, 2016	US\$176,546	US\$3,904	6.398%	CAD\$241,839	CAD\$216,237 US\$164,689	September 5, 2020
September 5, 2016	US\$381,572	US\$7,392	5.95%	CAD\$629,258	CAD\$494,445 US\$376,577	August 5, 2021

(1) Blended monthly payments of principal and interest.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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 September 30, 2016:

<u>Origination</u>	<u>Initial amount</u>	<u>Payment ⁽¹⁾</u>	<u>Interest per annum</u>	<u>Asset carrying value</u>	<u>Loan value</u>	<u>Residual</u>	<u>Maturity</u>
November 15, 2013	US\$137,035	US\$2,296	7.95%	CAD\$173,953	CAD\$110,924 US\$84,482	US\$37,680	December 20, 2018
July 17, 2014	US\$226,432	US\$3,861	7.62%	CAD\$246,895	CAD\$207,864 US\$158,312	US\$50,610	August 20, 2019
December 22, 2015	US\$170,000	US\$4,364	6.75%	CAD\$149,354	CAD\$181,315 US\$138,092	US\$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest.

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

	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$
Lease payments	41,447	165,785	212,244	146,587	566,063
Finance charges	(9,029)	(30,043)	(22,472)	(4,416)	(65,960)
Net present values	32,418	135,742	189,772	142,171	500,103

The future minimum lease payments have been translated at the closing rate at September 30, 2016 using an exchange rate of USD\$1.00 = CAD\$1.313.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

7 Long-term debt (continued)

iv) *Term loans*

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

- (a) A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The value of the loan on September 30, 2016 is CAD\$525,750;
- (b) A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The value of the loan on September 30, 2016 is CAD\$98,475 (US\$75,000);
- (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 value of the loan on September 30, 2016 is CAD\$26,180;
- (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 value of the loan on September 30, 2016 is CAD\$17,187 (US\$13,090).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

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

During the three months ended September 30, 2016, the Company issued 55,000 common shares.

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

	Common stock	
	Number	\$
September 30, 2016	28,939,658	8,587,995
December 31, 2015	28,884,658	8,585,808

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the nine months ended September 30, 2016, was 28,885,424 (December 31, 2015 - 28,884,658).

d) Stock options

At September 30, 2016, the Company has 1,800,000 options outstanding (December 31, 2015 – 1,830,000) and a weighted average exercise price of \$0.17 (December 31, 2015 - \$0.17). During the nine months ended September 30, 2016, no stock options expired (for the nine months ended September 30, 2015 – 142,500). There were 25,000 stock options granted during the nine months ended September 30, 2016 (for the nine months ended September 30, 2015 – 730,000). During the nine months ended September 30, 2016, 55,000 stock options were exercised for proceeds of \$3,000 (for the nine months ended September 30, 2015 – Nil). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$5,350 (for the nine months ended September 30, 2015 – \$51,547).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

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%).

	September 2016	December 2015
	\$	\$
Opening balance of liability component net of transaction costs	347,412	342,645
Accretion expense	3,573	4,767
Closing balance of liability component net of transaction costs	350,985	347,412
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	20,077	20,077

10 Revenue

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

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Royalties	480,039	415,832	1,391,350	1,166,812
Franchise fees	65,066	520	236,902	25,200
License fees	2,545	3,600	8,351	8,029
Shredding services	1,586,024	1,309,120	4,816,664	3,644,651
Sale of paper products	284,712	245,437	788,789	727,351
Total revenue	2,418,386	1,974,509	7,242,056	5,572,043

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

11 Corporate operating locations expenses by nature

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

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Shredding expenses	256,147	229,562	781,043	624,857
Employee wages expense	584,581	409,813	1,716,283	1,135,972
Employee benefit expense	93,425	95,498	309,600	248,052
Office and administration expense	228,586	173,576	705,874	462,624
Total corporate operating expenses	1,162,739	908,449	3,512,800	2,471,505

12 Selling, general and administrative expenses by nature

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

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Employee wages and benefits	244,764	196,624	738,715	558,513
Share-based compensation	1,414	453	5,350	51,547
Professional fees	9,787	42,346	153,252	142,184
Consulting	5,500	-	40,332	-
Travel	32,169	34,139	107,854	89,300
Technology	100,059	88,177	291,593	249,648
Rent and office expense	26,219	25,242	90,398	66,186
Selling and development	9,549	14,020	57,479	57,275
Broker's fee	18,271	-	57,732	-
Amortization of deferred financing charges	1,842	1,842	5,526	5,526
Other expenses (1)	23,810	14,478	64,634	56,168
Total selling, general and administrative expenses	514,899	417,321	1,618,548	1,276,347

(1) Other expenses include insurance, telephone, bank charges and dues, subscriptions and donations.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

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

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 Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Wages and benefits	118,600	95,261	342,716	266,380
Share-based compensation	995	-	4,931	18,202
Total	119,595	95,261	347,647	284,582

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

13 Commitments

The Company has the following lease commitments:

Ft. Lauderdale, FL	Expires December 31, 2016
Albany, New York	Expires March 31, 2017
Charlotte, North Carolina	Expires April 30, 2017
Milwaukee, Wisconsin	Expires August 31, 2017
New York, New York	Expires October 31, 2017
Mississauga, Ontario	Expires September 30, 2018
Syracuse, New York	Expires September 30, 2020

Certain contracts include renewal options for various periods of time. For the nine months ended September 30, 2016, the Company incurred \$230,236 (nine months ended September 30, 2015 - \$185,948) in lease payments as an expense included in 'selling, general and administrative expenses' and 'corporate operating expenses.'

Non-cancellable operating lease rentals are payable as follows:

	\$
Less than 1 year	219,899
Between 1 and 5 years	139,908
Total	359,807

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

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 fixed rates 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 5.95% to 8.0% per annum. The loans in connection with the Charlotte purchase have fixed interest rates of 9% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

Credit risk

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

Receivables related to franchising and licensing

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of September 30, 2016, 6 franchisees accounted for 67% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2015 - 6 franchisees accounted for 72%). For the nine months ended September 30, 2016, 3 franchisees accounted for 17% of the Company's revenues related to franchising and licensing (December 31, 2015 - 3 franchisees accounted for 28%). As of September 30, 2016, 9% 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 September 30, 2016 and December 31, 2015, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2016 and September 30, 2015, no customer accounted for more than 10% of the Company's revenues in this category. As of September 30, 2016, 13% of accounts receivable in this category was over 90 days old (December 31, 2015 - 4%). The Company has recorded an allowance of \$5,000 for credit losses from receivables related to corporate operations (December 31, 2015 - \$1,067). The Company does not have any reason to believe it will not collect all remaining balances.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

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.

Exchange rates utilized (CDN to USD)

	2016			2015		
	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$
Balance sheet date rate	1.313	1.290	1.300	1.384	1.335	1.249

During the nine months ended September 30, 2016 the Company recorded a foreign exchange loss of \$72,637 (September 30, 2015 - gain of \$694,973).

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of \$8.1million at September 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 \$1,850,737 at September 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 \$2,308,054 at September 30, 2016 (December 31, 2015 - \$2,162,105) including a cash balance of \$898,177 (December 31, 2015 - \$848,197)

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	774,909	–	–	–
Notes payable	10,557	32,470	56,861	–
Convertible debentures	–	–	350,985	–
Long-term debt	158,234	631,757	6,991,195	–
Contingent consideration	49,238	8,206	8,206	–

Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	1,248	2,947	2,181	–
Convertible debentures	–	28,125	7,031	–
Long-term debt	37,033	688,964	675,862	–

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	774,909	–	–	–
Notes payable	11,805	35,417	59,042	–
Convertible debentures	–	28,125	358,016	–
Long-term debt	195,267	1,320,721	7,667,057	–
Contingent consideration	49,238	8,206	8,206	–

Fair value of financial instruments

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

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at September 30, 2016, amounted to \$182,532 (December 31, 2015 - \$206,306) with fair value estimated to be \$178,483 (December 31, 2015 - \$177,627), respectively.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

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

September 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
	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	219,799	512,944	165,434	898,177
Cash attributable to the Ad Fund	159,041	–	–	159,041
Trade receivables	246,598	712,486	43,225	1,002,309
Prepaid expenses	16,214	111,818	35,983	164,015
Notes receivable from franchisees	84,512	–	–	84,512
Total current assets	726,164	1,337,248	244,642	2,308,054
Non-current assets				
Notes receivable from franchisees	98,020	–	–	98,020
Equipment	–	3,240,263	16,774	3,257,037
Intangible assets	469,915	1,720,978	375,514	2,566,407
Goodwill	–	1,796,755	–	1,796,755
Total assets	1,294,099	8,095,244	636,930	10,026,273
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	374,490	119,493	454,727	948,710
Current portion of notes payable	–	43,027	–	43,027
Current portion of long-term debt	–	788,241	–	788,241
Current portion of contingent consideration	–	57,444	–	57,444
Total current liabilities	374,490	1,008,205	468,042	1,850,737
Non-current liabilities				
Long-term debt	–	6,991,191	–	6,991,191
Long-term notes payable	–	56,861	–	56,861
Contingent consideration	–	8,206	–	8,206
Deferred tax liability	351,515	–	–	351,515
Convertible debentures	–	–	350,985	350,985
Total liabilities	726,005	8,064,463	819,027	9,609,495

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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

September 30, 2016

(expressed in Canadian dollars)

16 Segment reporting (continued)

Geographic information

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Canada	\$	\$
Equipment	16,774	13,253
Intangible assets	375,514	574,297
United States		
Notes receivable from franchisees	182,532	206,306
Equipment	3,240,263	3,141,939
Intangible assets	2,190,893	2,805,951
Goodwill	1,796,755	1,893,914
Total		
Notes receivable from franchisees	182,532	206,306
Equipment	3,257,037	3,155,192
Intangible assets	2,566,407	3,380,248
Goodwill	1,796,755	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>September 30, 2016</u>	<u>September 30, 2015</u>
	\$	\$
United States		
Royalties	480,039	415,832
Franchise fees	65,066	520
Shredding services	1,586,024	1,309,120
Sale of paper products	284,712	245,437
Middle East		
License fees	2,545	3,600

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

16 Segment reporting (continued)

Geographic information (continued)

For the nine months ended,	September 30, 2016	September 30, 2015
	\$	\$
United States		
Royalties	1,391,350	1,166,812
Franchise fees	236,902	25,200
Shredding services	4,816,664	3,644,651
Sale of paper products	788,789	727,351
Middle East		
License fees	8,351	8,029

Net income (loss) by operating segment

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

	For the three months ended September 30, 2016			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	547,650	1,870,736	–	2,418,386
Direct costs	–	(1,162,739)	–	(1,162,739)
Corporate overhead	(314,823)	(135,689)	(64,387)	(514,899)
Depreciation and amortization	(148,470)	(237,842)	–	(386,312)
Foreign exchange gain	–	–	100,170	100,170
Loss on sale of assets	–	(143,609)	–	(143,609)
Interest expense	–	(207,704)	–	(207,704)
Interest income	1,530	–	–	1,530
Income tax expense	(29,234)	–	–	(29,234)
Net income	56,653	(16,847)	35,783	75,589

	For the three months ended September 30, 2015			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	419,952	1,554,557	–	1,974,509
Direct costs	–	(908,449)	–	(908,449)
Corporate overhead	(216,507)	(117,893)	(82,921)	(417,321)
Depreciation and amortization	(149,722)	(209,348)	–	(359,070)
Foreign exchange gain	–	–	201,440	201,440
Gain on sale of assets	–	45,556	–	45,556
Interest expense	–	(193,578)	–	(193,578)
Interest income	4,312	–	–	4,312
Income tax recovery	15,861	–	–	15,861
Net income	73,896	170,845	118,519	363,260

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

16 Segment reporting (continued)

Net income (loss) by operating segment (continued)

	For the nine months ended September 30, 2016			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,636,603	5,605,453	–	7,242,056
Direct costs	–	(3,512,800)	–	(3,512,800)
Corporate overhead	(830,482)	(448,641)	(339,425)	(1,618,548)
Depreciation and amortization	(448,432)	(678,914)	–	(1,127,346)
Foreign exchange (loss)	–	–	(72,637)	(72,637)
Interest expense	–	(530,130)	(24,660)	(554,790)
Interest income	6,130	–	–	6,130
Loss on sale of assets	–	(143,609)	–	(143,609)
Income tax expense	(27,182)	–	–	(27,182)
Net income	336,637	291,359	(436,722)	191,274

	For the nine months ended September 30, 2015			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,200,041	4,372,002	–	5,572,043
Direct costs	–	(2,471,505)	–	(2,471,505)
Corporate overhead	(638,594)	(330,443)	(307,310)	(1,276,347)
Depreciation and amortization	(441,453)	(606,123)	–	(1,047,576)
Foreign exchange gain	–	–	694,973	694,973
Interest expense	–	(537,647)	(24,660)	(562,307)
Interest income	8,562	–	–	8,562
Gain on sale of assets	–	48,641	–	48,641
Income tax recovery	38,326	–	–	38,326
Net income	166,882	474,925	363,003	1,004,810

17 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There are no accounts receivable outstanding from this franchise at September 30, 2016 (\$nil – December 31, 2015). During the nine months ended September 30, 2016, the Company earned royalties, service fees and franchise fees of \$126,005 (2015 - \$87,650) 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 all of its corporate locations with the exception of Charlotte and for general business purposes. The Company has \$1,058,516 available for use on its line as of September 30, 2016.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(expressed in Canadian dollars)

17 Related party balances and transactions (continued)

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 Proshred Charlotte franchise on July 31, 2013, the Company entered into loan agreements with related parties (see note 7).