RediShred Capital Corp.

Consolidated Interim Financial Statements
March 31, 2017 and 2016
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

May 26, 2017

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2017.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at March 31, 2017 and December 31, 2016

(expressed in Canadian dollars)

	March 31, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash	1,582,794	1,011,443
Cash attributable to the Advertising Fund (note 3)	118,900	261,304
Income taxes receivable	21,258	21,457
Trade receivables	1,087,169	913,696
Prepaid expenses	230,708	159,586
Notes receivable from franchisees	89,100	89,429
	3,129,929	2,456,915
Non-current assets		
Notes receivable from franchisees	85,513	109,861
Equipment (note 5)	3,980,383	3,222,547
Intangible assets (note 6)	2,676,766	2,374,679
Goodwill (note 7)	1,820,019	1,837,398
	8,562,681	7,544,485
Total assets	11,692,610	10,001,400
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,357,891	1,128,913
Current portion of notes payable (note 8)	107,177	33,180
Current portion of long-term debt (note 9)	1,100,537	5,619,461
Current portion of contingent consideration (note 4)	133,000	33,568
	2,698,605	6,815,122
Non-current liabilities		
Long-term debt (note 9)	2,827,109	2,050,369
Long-term notes payable (note 8)	138,733	58,171
Contingent consideration (note 4)	30,590	–
Deferred tax liability	189,004	207,044
Convertible debentures (note 11)	–	352,176
	3,185,436	2,667,760
Total liabilities	5,884,041	9,482,882
Shareholders’ Equity		
Capital stock (note 10)	13,782,433	8,590,995
Contributed surplus	462,218	512,518
Accumulated other comprehensive loss	(734,207)	(496,250)
Deficit	(7,701,875)	(8,088,745)
	5,808,569	518,518
Total liabilities and shareholders’ equity	11,692,610	10,001,400

Commitments (note 15)

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 months ended March 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Revenue (note 12)	2,634,451	2,348,152
Corporate operating locations expenses (note 13)	(1,200,334)	(1,195,510)
Depreciation – tangible assets	(187,828)	(144,157)
Selling, general and administrative expenses (note 14)	(626,637)	(536,038)
Operating income	619,652	472,447
Amortization – intangible assets	(230,924)	(234,086)
Foreign exchange gain (loss)	119,717	(144,257)
Interest expense	(120,284)	(174,596)
Interest income	2,311	2,556
Income (loss) before income taxes	390,472	(77,936)
Income tax (expense) recovery	(3,602)	5,354
Net income (loss) for the period	386,870	(72,582)
Foreign currency translation (loss)	(237,957)	(319,862)
Comprehensive income (loss) for the period	148,913	(392,444)
Net income (loss) per share		
Basic and diluted	0.00	(0.00)
Weighted average number of commons shares outstanding – basic	42,260,482	28,884,658
Weighted average number of commons shares outstanding – diluted	42,808,460	30,627,535

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2017 and 2016
(expressed in Canadian dollars)

	Capital stock and warrants $ (note 10)	Contributed surplus $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity $
Balance – January 1, 2017	8,590,995	512,518	(496,250)	(8,088,745)	518,518
Net income for the period	–	–	–	386,870	386,870
Foreign currency translation (loss)	–	–	(237,957)	–	(237,957)
Comprehensive income for the period	–	–	–	–	148,913
Issue of shares (note 10)	4,520,645	(50,779)	–	–	4,469,866
Issue of warrants (note 10)	670,793	–	–	–	670,793
Stock-based compensation (note 10)	–	479	–	–	479
Balance – March 31, 2017	13,782,433	462,218	(734,207)	(7,701,875)	5,808,569
Balance – January 1, 2016	8,585,808	427,575	(220,738)	(8,262,633)	530,012
Net (loss) for the period	–	–	–	(72,582)	(72,582)
Foreign currency translation (loss)	–	–	(319,862)	–	(319,862)
Comprehensive (loss) for the period	–	–	–	–	(392,444)
Stock-based compensation (note 10)	–	644	–	–	644
Balance – March 31, 2016	8,585,808	428,219	(540,600)	(8,335,215)	138,212

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2017 and 2016

(expressed in Canadian dollars)

Cash provided by (used in)	**2017** **$**	**2016** **$**
Operating activities		
Net income (loss) for the period	322,206	(72,582)
Items not affecting cash		
Amortization of tangible and intangible assets	483,413	363,665
Stock-based compensation	479	644
Unrealized foreign currency (gain) loss	(4,963)	164,518
Income tax recovery	(18,494)	(5,354)
	782,641	450,891
Net change in non-cash working capital balances		
(Increase) decrease in trade receivables	(141,396)	34,148
(Increase) in prepaid expenses	(71,738)	(95,551)
Increase in accounts payable and accrued liabilities	174,504	104,454
Net cash from operations	744,011	493,942
Financing activities		
Borrowings from long-term debt	69,796	–
Repayment of long-term debt	(3,944,139)	(692,446)
Issuance of capital stock (net of fees)	4,788,465	–
Repayment of notes receivable from franchisees	22,672	34,643
Repayment of note payable	(10,827)	
	925,967	(657,803)
Investing activities		
Acquisition of Northern Virginia	(1,084,264)	–
Cash held by advertising fund	139,196	(16,474)
Purchase of capital assets	(479,681)	(82,268)
Proceeds from disposal of capital assets	328,363	–
	(1,096,386)	(98,742)
Effect of foreign exchange rate changes on cash	(2,241)	(29,464)
Net change in cash for the period	571,351	(292,067)
Cash – Beginning of period	1,011,443	848,197
Cash – End of period	1,582,794	556,130

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

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 seven 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, 2016, which includes information necessary or useful to understanding the Company's business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2017. 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, 2016 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 months ended March 31, 2017 were authorized for issue in accordance with a resolution of the Directors on May 25, 2017.

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 March 31, 2017, the cash attributable to the Ad Fund amounted to $118,900 (December 31, 2016 - $261,304).

(expressed in Canadian dollars)

4 Acquisition of franchise

On March 31, 2017, the Company acquired the Proshred Northern Virginia business from an existing franchisee. The Company conducted the acquisition to (1) increase the Company's long-term cash flows, and (2) to enter into a growing market. The purchase price was allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) based on their estimated fair value at the date of the acquisition. The business combination also resulted in the removal of the original franchise agreement intangible asset between the Company's subsidiary, Proshred Franchising Corp. and the franchisee. The Company removed the original franchise agreement intangible asset in the amount of $24,254. Refer to note 6.

The following table outlines the assets purchased and consideration given on the closing date of the acquisition.

	$
Assets acquired	
Net Working capital	70,490
Tangible assets	803,193
Customer relationships	532,000
Re-acquired franchise rights	45,661
Removal of original franchise agreement (note 6)	(24,254)
	1,427,090
Consideration given	
Cash	1,064,000
Note payable (note 8)	166,250
60-day payable	66,500
Contingent consideration	130,340
	1,427,090
Acquisition costs (expensed in statement of comprehensive loss)	9,434

(expressed in Canadian dollars)

5 Equipment

Cost	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles – box**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
As at January 1, 2016	153,878	92,577	497,529	1,133,754	2,886,470	56,887	4,821,095
Additions	49,224	1,938	82,242	333,702	720,300	16,990	1,204,396
Sale of assets	-	-	-	(186,415)	(463,366)	-	(649,781)
Fully depreciated	7,372	11,199	(4,041)	(51,454)	(164,091)	6,092	(194,923)
Foreign exchange	(4,019)	1,221	(14,967)	(35,368)	(88,679)	(1,516)	(143,328)
As at December 31, 2016	206,455	106,935	560,763	1,194,219	2,890,634	78,453	5,037,459
Additions	15,875	3,000	22,402	104,869	264,698	26,457	437,301
Acquisition (note 4)	5,320	10,640	83,339	189,086	501,507	13,300	803,192
Disposals	-	-	-	(93,382)	(237,392)	-	(330,774)
Foreign exchange	(840)	(203)	(5,380)	(12,269)	(29,442)	(627)	(48,761)
As at March 31, 2017	**226,810**	**120,372**	**661,124**	**1,382,523**	**3,390,005**	**117,583**	**5,898,417**

Accumulated depreciation	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles - box**	**Vehicles**	**Total**
	$	**$**	**$**	$	**$**	**$**	**$**
As at January 1, 2016	140,994	74,358	267,800	301,110	837,503	44,138	1,665,903
Depreciation	23,617	7,204	95,511	139,226	343,441	20,202	629,201
Sale of assets	(485)	-	-	(67,413)	(167,972)	-	(235,870)
Fully depreciated	7,372	11,199	(4,041)	(51,454)	(164,091)	6,092	(194,923)
Foreign exchange	(1,370)	(728)	(8,112)	(10,519)	(27,535)	(1,135)	(49,399)
As at December 31, 2016	170,128	92,033	351,158	310,950	821,346	69,297	1,814,912
Depreciation	7,493	1,783	20,248	49,712	114,440	5,351	199,027
Disposals	(485)	-	-	(23,264)	(54,256)	-	(78,005)
Foreign exchange	(538)	(129)	(3,398)	(3,914)	(9,381)	(540)	(17,900)
As at March 31, 2017	**176,598**	**93,687**	**368,008**	**333,484**	**872,149**	**74,108**	**1,918,034**
Net book value							
As at December 31, 2016	36,327	14,902	209,605	883,269	2,069,288	9,156	3,222,547
As at March 31, 2017	**50,212**	**26,685**	**293,116**	**1,049,039**	**2,517,856**	**43,475**	**3,980,383**

The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar functional currency in the acquiring company to Canadian presentation dollars at March 31, 2017 and December 31, 2016.

6 Intangible assets

Cost	Franchise agreements	Proshred system	Trademarks and intellectual property	Re-acquired franchise rights	Customer relationships	Total
	$	$	$	$	$	$
As at January 1, 2016	3,220,443	978,000	1,672,500	1,312,031	2,810,666	9,993,640
Additions	-	-	-	-	11,291	11,291
Foreign exchange	(100,804)	-	-	(39,152)	(83,877)	(223,833)
As at December 31, 2016	3,119,639	978,000	1,672,500	1,272,879	2,738,080	9,781,098
Acquisition (note 4)	–	–	–	45,661	532,000	577,661
Removal of original franchise agreement (note 4)	(232,171)	–	–	–	–	(232,171)
Foreign exchange	(83,011)	–	–	(12,018)	(25,898)	(120,927)
As at March 31, 2017	**2,804,457**	**978,000**	**1,672,500**	**1,306,522**	**3,244,182**	**10,005,661**

Accumulated amortization	Franchise agreements	Proshred system	Trademarks and intellectual property	Re-acquired franchise rights	Customer relationships	Total
	$	$	$	$	$	$
As at January 1, 2016	2,602,472	766,091	1,310,121	1,074,175	860,533	6,613,392
Amortization	262,503	97,800	167,244	132,156	273,420	933,123
Foreign exchange	(82,363)	-	-	(32,054)	(25,679)	(140,096)
As at December 31, 2016	2,782,612	863,891	1,477,365	1,174,277	1,108,274	7,406,419
Amortization	67,619	24,450	41,811	19,667	67,802	221,349
Removal of original franchise agreement (note 4)	(207,917)	–	–	–	–	(207,917)
Foreign exchange	(69,366)	–	–	(11,107)	(10,483)	(90,956)
As at March 31, 2017	**2,572,948**	**888,341**	**1,519,176**	**1,182,837**	**1,165,593**	**7,328,895**
Net book value						
As at December 31, 2016	337,027	114,109	195,135	98,602	1,629,806	2,374,679
As at March 31, 2017	**231,509**	**89,659**	**153,324**	**123,685**	**2,078,589**	**2,676,766**

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2017 and December 31, 2016. 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.

(expressed in Canadian dollars)

7 Goodwill

The following table presents goodwill for the three months ended March 31, 2017 and for the year ended December 31, 2016:

	March 31, 2017	December 31, 2016
	$	$
Opening balance	1,837,398	1,893,914
Foreign currency translation	(17,379)	(56,516)
Closing balance	1,820,019	1,837,398

8 Notes payable

On December 31, 2015, the Company purchased the assets of Recordshred Inc. As a result of this transaction the Company entered into a 3 year promissory note in the amount of CAD$133,000 (US$100,000) with blended monthly payments of principal and interest of CAD$3,986 (US$2,997) maturing December 5, 2018. The note bears interest at 5% per annum.

On March 31, 2017, the Company purchased the Proshred Northern Virginia franchise. As a result of this transaction the Company entered into a 2 year non-interest bearing promissory note in the amount of US$125,000 with monthly payments of US$5,208 maturing April 1, 2019.

9 Long-term debt

As at March 31, 2017 and December 31, 2016 long-term debt is comprised of:

	March 31, 2017	December 31, 2016
	$	$
Line of credit (i)	1,973,757	4,973,848
Truck loans (ii)	1,505,376	1,559,056
Finance lease liability (iii)	440,300	478,295
Term loans (iv)	8,213	658,631
Total long-term debt	3,927,646	7,669,830
Less: current portion	(1,100,537)	(5,619,461)
Total long-term debt	2,827,109	2,050,369

(expressed in Canadian dollars)

9 Long-term debt (continued)

(i) Line of Credit

The line of credit was entered into on November 27, 2009 with a related party entity (see note 19) 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. 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 all of its corporate locations with the exception of Charlotte and Northern Virginia. The line of credit has also been used 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. On February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019. The other terms of the agreement remained unchanged. The Company made a $3 million principal payment on February 9, 2017. As of March 31, 2017, there is $4.06 million available for use on the line.

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at March 31, 2017:

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$137,961	CAD$16,597 US$12,479	August 3, 2017
October 24, 2013	US$187,950	US$3,731	7.00%	CAD$158,278	CAD$88,910 US$66,850	October 24, 2018
June 23, 2015	US$229,039	US$4,520	6.75%	CAD$252,100	CAD$209,614 US$157,605	June 23, 2020
July 22, 2015	US$300,000	US$7,283	7.50%	CAD$324,414	CAD$247,748 US$186,277	July 22, 2019
December 22, 2015	US$80,000	US$2,480	7.50%	CAD$9,478	CAD$64,729 US$48,669	December 5, 2018
July 5, 2016	US$176,546	US$3,904	6.398%	CAD$233,624	CAD$194,602 US$146,318	September 5, 2020
September 5, 2016	US$381,572	US$7,392	5.95%	CAD$608,893	CAD$456,303 US$343,085	August 5, 2021
March 22, 2017	US$170,581	US$3,282	5.71%	CAD$359,208	CAD$226,873 US$170,581	March 22, 2022

(1) Blended monthly payments of principal and interest.

9 Long-term debt (continued)

iii) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as at March 31, 2017:

Origination	Initial amount	Payment [1]	Interest per annum	Asset carrying value	Loan value	Residual [2]	Maturity
November 15, 2013	US$137,035	US$2,296	7.95%	CAD$155,450	CAD$98,273 US$73,890	US$37,680	December 20, 2018
July 17, 2014	US$226,432	US$3,861	7.62%	CAD$228,765	CAD$187,306 US$140,899	US$50,610	August 20, 2019
December 22, 2015	US$170,000	US$4,364	6.75%	CAD$145,765	CAD$154,631 US$116,264	US$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest.
(2) The loan value includes the residual value.

Future minimum finance lease payments at March 31, 2017, stated in Canadian dollars, were as follows:

	2017 $	2018 $	2019 $	Total $
Lease payments	125,949	215,023	148,485	489,457
Finance charges	(21,890)	(22,763)	(4,473)	(49,126)
Net present values	104,059	192,260	144,012	440,331

The future minimum lease payments have been translated at the closing rate at March 31, 2017 using an exchange rate of USD$1.00 = CAD$1.33.

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 (refer to note 19):

(a) A 5 year loan 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. On January 23, 2017, the loan was converted into equity at a price of $0.30 per Common Share;

(b) A 5 year loan 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. On January 23, 2017, the loan was converted into equity at a price of $0.30 per Common Share;

(expressed in Canadian dollars)

9 Long-term debt (continued)

iv) *Term loans* (continued)

(c) A 4 year loan 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. On January 23, 2017, the loan was converted into equity at a price of $0.30 per Common Share; and

(d) A 4 year loan 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.

10 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

On January 23, 2017, the Company closed its private placements and debt conversion, issuing 17,962,929 common shares.

The details of the private placement and debt conversions are as follows:

	Value	Common Shares	Issue Price
	$	Units	$
Private placement (see note e)	4,034,300	13,447,669	0.30
Debt conversion	642,078	2,140,258	0.30
Conversion of debentures	375,000	1,250,002	0.30
Options exercised	207,500	1,125,000	0.15-0.20

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

	Common stock	
	Number	$
Balance, March 31, 2017	46,902,587	14,070,776
Balance, December 31, 2016	28,939,658	8,590,995

(expressed in Canadian dollars)

10 Capital stock (continued)

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2017, was 42,260,482 (December 31, 2016 – 29,939,658). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2017, was 42,808,460 (December 31, 2016 – 29,693,461).

d) Stock options

At March 31, 2017, the Company has 975,000 options outstanding (December 31, 2016 – 2,100,000) and a weighted average exercise price of $0.21 (December 31, 2016 - $0.19). 1,125,000 stock options were exercised in the first quarter of 2017 (for the three months ended March 31, 2016 – nil). There were no stock options granted during the three months ended March 31, 2017 (for the three months ended March 31, 2016 – nil). For the three months ended March 31, 2017, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to $479 (for the three months ended March 31, 2016 – $644). Subsequent to March 31, 2017, on May 1, 2017, 693,500 stock options were granted. Refer to note 20.

e) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of $0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. The fair values of the warrants were determined using the Black-Scholes option pricing model.

11 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. On January 23, 2017, the debentures were converted to 1,250,002 common shares.

12 Revenue

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

For the three months ended,	**2017**	**2016**
	$	**$**
Royalties	528,328	456,198
Shredding services	1,749,991	1,642,515
Sale of paper products	356,132	249,509
Total revenue	2,634,451	2,348,152

(expressed in Canadian dollars)

13 Corporate operating locations expenses by nature

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

For the three months ended,	**2017**	**2016**
	$	**$**
Shredding vehicle and related expenses	300,944	250,979
Employee wages expense	555,473	570,313
Employee benefit expense	116,170	118,256
Office and administration expense	227,747	286,808
Total corporate operating expenses	1,200,334	1,195,510

14 Selling, general and administrative expenses by nature

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

For the three months ended,	**2017**	**2016**
	$	**$**
Employee wages and benefits expense	340,699	234,779
Share-based compensation	479	644
Professional fees	58,597	88,477
Travel	37,014	35,310
Technology	98,095	98,850
Rent and office expense	40,865	32,831
Selling and development	27,620	16,621
Amortization of deferred financing charges	-	1,842
Other	23,268	26,684
Total selling, general and administrative expenses	626,637	536,038

Compensation of key management

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

For the three months ended,	**2017**	**2016**
	$	**$**
Wages and benefits	164,031	128,400
Share-based compensation	414	580
Total	164,445	128,980

For the three months ended March 31, 2017, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Corporate Development and Senior Vice President of Operations. For the three months ended March 31, 2016, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, and Senior Vice President of Operations.

(expressed in Canadian dollars)

15 Commitments

The Company has the following office lease commitments:

Charlotte, North Carolina	Expires April 30, 2017
Milwaukee, Wisconsin	Expires August 31, 2017
New York, New York	Expires October 31, 2017
Ft. Lauderdale, Florida	Expires December 31, 2017
Albany, New York	Expires March 31, 2019
North Virginia, Virginia	Expires August 31, 2019
Syracuse, New York	Expires September 30, 2020
Mississauga, Ontario	Expires September 30, 2023

Certain contracts include renewal options for various periods of time. For the three months ended March 31, 2017, the Company incurred $92,554 (three months ended March 31, 2016 - $70,372) 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	278,025
Between 1 and 5 years	654,537
Over 5 years	35,978
Total	968,540

16 Financial instruments and fair values

The Company has financial assets that consist of: cash, cash attributable to the Advertising Fund, trade receivables and notes receivable from franchisees. The Company's financial liabilities include accounts payable and accrued liabilities, notes payable, long-term debt and 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 5.25% 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 5.7% to 8.0% per annum. The loan in connection with the Charlotte purchase has a fixed interest rate 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.

16 Financial instruments and fair values (continued)

Credit risk (continued)

Receivables related to franchising and licensing

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2017, 6 franchisees accounted for 63% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2016 - 6 franchises accounted for 65%). For the three months ended March 31, 2017, 3 franchisees accounted for 17% of the Company's revenues related to franchising and licensing (December 31, 2016 - 3 franchisees accounted for 23%). As of March 31, 2017, there were accounts receivable of $13,729 outstanding over 90 days (December 31, 2016 – nil).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At March 31, 2017, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2017 and 2016, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31 2017, 6% of accounts receivable in this category were over 90 days (December 31, 2016 – 9%). As at March 31, 2017, the Company has not recorded an allowance for credit losses from receivables related to corporate operations (December 31, 2016 - $nil). The Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

The Company has revenues and costs that are denominated in US dollars; this dependency on the US dollar causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar. The Company has significant dollar value assets denominated in US dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses. During the three months ended March 31, 2017, the Company recorded a foreign exchange gain of $119,717 (during the three months ended March 31, 2016 – loss of $144,257). Exchange rates utilized (USD to CDN):

As at,	**March 31, 2017**	**December 31, 2016**
	$	$
Close rate	1.33	1.34

For the three months ended,	**March 31, 2017**	**March 31, 2016**
	$	**$**
Average rate	1.32	1.37

(expressed in Canadian dollars)

16 Financial instruments and fair values (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of $7.7 million at March 31, 2017. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements.

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of $2,698,605 at March 31, 2017 (December 31, 2016 - $6,815,122), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of $3,129,926 at March 31, 2017 (December 31, 2016 - $2,456,915) including a cash balance of $1,582,794 (December 31, 2016 - $1,011,443).

Principal	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	1,223,368	–	–	–
Notes payable	31,744	96,062	118,089	–
Long-term debt	154,806	945,829	2,827,012	–
Contingent consideration	–	133,000	30,590	–

Interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Notes payable	996	2,157	911	–
Long-term debt	191,582	254,539	282,758	–

Total principal and interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	1,223,368	–	–	–
Notes payable	32,740	98,219	119,000	–
Long-term debt	346,388	1,200,368	3,109,770	–
Contingent consideration	–	133,000	30,590	–

16 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 March 31, 2017, amounted to $174,613 (December 31, 2016 - $199,290) with fair value estimated to be $173,448 (December 31, 2016 - $171,138), respectively.

17 Capital management

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

To effectively manage its capital, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives.

The Company expects its current resources and projected cash flows from continuing operations to support its growth objectives. Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

18 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).

(expressed in Canadian dollars)

18 Segment reporting (continued)

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	March 31, 2017	March 31, 2017	March 31, 2017	March 31, 2017
ASSETS	$	$	$	$
Current assets				
Cash	283,642	343,885	955,267	1,582,794
Cash attributable to the Ad Fund	118,900	-	-	118,900
Trade receivables	190,823	872,754	23,592	1,087,169
Income tax receivable	21,258	-	-	21,258
Prepaid expenses	28,295	123,791	78,622	230,708
Notes receivable from franchisees	89,100	-	-	89,100
Total current assets	732,018	1,340,430	1,057,481	3,129,929
Non-current assets				
Notes receivable from franchisees	85,513	-	-	85,513
Equipment	-	3,964,112	16,271	3,980,383
Intangible assets	231,510	2,202,264	242,992	2,676,766
Goodwill	-	1,820,019	-	1,820,019
Total assets	1,049,041	9,326,825	1,316,744	11,692,610
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	395,948	618,689	343,254	1,357,891
Current portion of contingent consideration	-	133,000	-	133,000
Current portion of notes payable	-	107,177	-	107,177
Current portion of long-term debt	-	1,100,537	-	1,100,537
Total current liabilities	395,948	1,959,403	343,254	2,698,605
Non-current liabilities				
Long-term debt	-	2,827,109	-	2,827,109
Long-term note payable	-	138,733	-	138,733
Long-term contingent consideration	-	30,590	-	30,590
Deferred tax liability	189,004	-	-	189,004
Total liabilities	584,952	4,955,835	343,254	5,884,041

(expressed in Canadian dollars)

18 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	December 31, 2016	December 31, 2016	December 31, 2016	December 31, 2016
ASSETS	$	$	$	$
Current assets				
Cash	290,689	646,141	74,613	1,011,443
Cash attributable to the Ad Fund	261,304	-	-	261,304
Trade receivables	180,805	712,978	19,913	913,696
Income tax receivable	21,457	-	-	21,457
Prepaid expenses	11,883	84,967	62,736	159,586
Notes receivable from franchisees	89,429	-	-	89,429
Total current assets	830,369	1,444,086	182,460	2,456,915
Non-current assets				
Notes receivable from franchisees	109,861	-	-	109,861
Equipment	-	3,211,097	11,450	3,222,547
Intangible assets	337,016	1,728,410	309,253	2,374,679
Goodwill	-	1,837,398	-	1,837,398
Total assets	1,277,246	8,220,991	503,163	10,001,400
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	422,632	214,696	491,585	1,128,913
Current portion of contingent consideration	-	33,568	-	33,568
Current portion of notes payable	-	33,180	-	33,180
Current portion of long-term debt	-	5,619,461	-	5,619,461
Total current liabilities	422,632	5,900,905	491,585	6,815,122
Non-current liabilities				
Long-term debt	-	2,050,369	-	2,050,369
Note payable	-	58,171	-	58,171
Convertible debenture	-	-	352,176	352,176
Deferred tax liability	207,044	-	-	207,044
Total liabilities	629,676	8,009,445	843,761	9,482,882

(expressed in Canadian dollars)

18 Segment reporting (continued)

Geographic information

	March 31, 2017	December 31, 2016
Canada	**$**	**$**
Tangible assets	16,756	11,450
Intangible assets	242,992	309,253
United States		
Notes receivable from franchisees	174,613	199,290
Tangible assets	3,963,627	3,211,097
Intangible assets	2,433,774	2,065,426
Goodwill	1,820,019	1,837,398
Total		
Notes receivable from franchisees	174,613	199,290
Tangible assets	3,980,383	3,222,547
Intangible assets	2,676,766	2,374,679
Goodwill	1,820,019	1,837,398

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,	March 31, 2017	March 31, 2016
	$	**$**
United States		
Royalties	528,328	453,492
Shredding services	1,749,991	1,642,515
Sale of paper products	356,132	249,509
Middle East		
License fees	–	2,636

(expressed in Canadian dollars)

19 Segment reporting (continued)

Net income by operating segment

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

	For the three months ended March 31, 2017			
	Franchising and licensing	**Corporate locations**	**Corporate overhead**	**Total**
	$	**$**	**$**	**$**
Revenue	528,328	2,106,123	–	2,634,451
Direct costs	–	(1,200,334)	–	(1,200,334)
Selling, general and administrative	(280,725)	(286,027)	(59,885)	(626,637)
Depreciation and amortization	(154,687)	(264,065)	–	(418,752)
Interest expense	–	(120,284)	–	(120,284)
Interest income	2,311	–	–	2,311
Foreign exchange gain	–	–	119,717	119,717
Income tax recovery (expense)	2,473	(6,075)	–	(3,602)
Net income	97,700	229,338	59,832	386,870

	For the three months ended March 31, 2016			
	Franchising and licensing	**Corporate locations**	**Corporate overhead**	**Total**
	$	**$**	**$**	**$**
Revenue	456,128	1,892,024	–	2,348,152
Direct costs	–	(1,195,510)	–	(1,195,510)
Selling, general and administrative	(249,246)	(158,514)	(128,278)	(536,038)
Depreciation and amortization	(152,649)	(225,594)	–	(378,243)
Interest expense	–	(166,376)	(8,220)	(174,596)
Interest income	2,556	–	–	2,556
Foreign exchange gain (loss)	–	–	(144,257)	(144,257)
Income tax recovery	5,354	–	–	5,354
Net income (loss)	62,143	146,030	(280,755)	(72,582)

19 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is no accounts receivable balance due from this franchise at March 31, 2017 (March 31, 2016 - $3,820). During the three months ended March 31, 2017, the Company earned royalties, service fees and interest income of $32,865 (during the three months ended March 31, 2016 - $31,411) from this franchise.

The Company has a line of credit facility with a related party entity, the Company's largest shareholder, for a maximum of $6.03 million, repayable on November 27, 2019, bearing interest at a fixed rate of 10% per annum. (Refer to note 9). 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 Northern Virginia. The Company has also drawn from its line of credit for general business purposes. On February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019. The Company made a $3 million principal payment on February 9, 2017. As of March 31, 2017, there is $4.06 million available for use on the line.

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. On January 23, 2017, the convertible debentures were converted to common shares. (Refer to note 11).

Included in selling, general and administrative expenses for the three months ended March 31, 2017 are insurance premium amounts of $8,760 (for the three months ended March 31, 2016 - $997) paid to an insurance brokerage firm managed by a Director of the Company.

In order to finance the acquisition of the Charlotte location, the Company obtained four loans from certain members of the Company's Board of Director's. On January 23, 2017, the Company converted three of the loans into equity at a price of $0.30 per common share. (Refer to note 9).

20 Subsequent events

On May 1, 2017, the Company issued 531,000 stock options to the Board of Director's at an exercise price of $0.51, with a term of five years. The Company also issued 162,500 stock options to Senior Management at an exercise price of $0.51 with a term of five years.