

RediShred Capital Corp.

Consolidated Interim Financial Statements

September 30, 2017 and 2016

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

November 27, 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 September 30, 2017.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at September 30, 2017 and December 31, 2016

(expressed in Canadian dollars)

	September 30, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Cash	1,804,780	1,011,443
Cash attributable to the Advertising Fund (note 3)	198,305	261,304
Income taxes receivable	19,947	21,457
Trade receivables	1,042,362	913,696
Prepaid expenses	185,352	159,586
Notes receivable from franchisees	81,286	89,429
	<u>3,332,032</u>	<u>2,456,915</u>
Non-current assets		
Notes receivable from franchisees	40,977	109,861
Equipment (note 4)	3,965,446	3,222,547
Intangible assets (note 5)	2,101,828	2,374,679
Goodwill (note 6)	1,708,119	1,837,398
	<u>7,816,370</u>	<u>7,544,485</u>
Total assets	<u>11,148,402</u>	<u>10,001,400</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	815,776	1,128,913
Current portion of notes payable (note 7)	120,976	33,180
Current portion of long-term debt (note 8)	1,066,236	5,619,461
Current portion of contingent consideration	53,272	33,568
	<u>2,056,260</u>	<u>6,815,122</u>
Non-current liabilities		
Long-term debt (note 8)	2,811,284	2,050,369
Long-term notes payable (note 7)	56,568	58,171
Contingent consideration	21,258	–
Deferred tax liability	185,302	207,044
Convertible debentures (note 10)	–	352,176
	<u>3,074,412</u>	<u>2,667,760</u>
Total liabilities	<u>5,130,672</u>	<u>9,482,882</u>
Shareholders' Equity		
Capital stock (note 9)	14,005,416	8,590,995
Contributed surplus	646,578	512,518
Accumulated other comprehensive loss	(756,162)	(496,250)
Deficit	(7,878,102)	(8,088,745)
	<u>6,017,730</u>	<u>518,518</u>
Total liabilities and shareholders' equity	<u>11,148,402</u>	<u>10,001,400</u>

Commitments (note 14)

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income (Loss)

For the three and nine months ended September 30, 2017 and 2016

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue (note 11)	2,834,413	2,418,386	8,570,631	7,242,056
Corporate operating locations expenses (note 12)	(1,397,223)	(1,162,739)	(4,209,748)	(3,512,800)
Selling, general and administrative expenses (note 9(d) and 13)	(572,594)	(514,899)	(1,990,216)	(1,618,548)
Income before depreciation	864,596	740,748	2,370,667	2,110,708
Depreciation – tangible assets	(255,150)	(160,070)	(707,369)	(443,110)
Operating income	609,446	580,678	1,663,298	1,667,598
Interest expense	(78,156)	(207,704)	(284,489)	(554,790)
Interest income	1,795	1,530	6,125	6,130
Income before the following	533,085	374,504	1,384,934	1,118,938
Amortization – intangible assets	(244,454)	(226,242)	(733,953)	(684,236)
Foreign exchange (loss) income	(335,035)	100,170	(367,553)	(72,637)
Loss on sale of assets	–	(143,609)	–	(143,609)
(Loss) Income before income taxes	(46,404)	104,823	283,428	218,456
Income tax expense	(21,712)	(29,234)	(72,785)	(27,182)
Net (loss) income for the period	(68,116)	75,589	210,643	191,274
Foreign currency translation (loss) income	(5,227)	19,948	(259,912)	(309,858)
Comprehensive (loss) income for the period	(73,343)	95,537	(49,269)	(118,584)
Net (loss) income per share				
Basic and diluted	(0.00)	0.00	(0.00)	0.00
Weighted average number of common shares outstanding – basic	47,190,739	28,886,941	45,541,310	28,885,424
Weighted average number of common shares outstanding – diluted	48,766,586	29,579,222	46,878,997	29,577,705

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, 2017 and 2016

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 9)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity \$
Balance – January 1, 2017	8,590,995	512,518	(496,250)	(8,088,745)	518,518
Net income for the period	–	–	–	210,643	210,643
Foreign currency translation loss			(259,912)		<u>(259,912)</u>
Comprehensive loss for the period					(49,269)
Issue of shares (note 9)	4,743,628	(153,262)	–	–	4,590,366
Issue of warrants (note 9)	670,793	–	–	–	670,793
Stock-based compensation (note 9)	–	287,322	–	–	<u>287,322</u>
Balance – September 30, 2017	<u>14,005,416</u>	<u>646,578</u>	<u>(756,162)</u>	<u>(7,878,102)</u>	<u>6,017,730</u>
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
Foreign currency translation loss			(309,858)		<u>(309,858)</u>
Comprehensive loss for the period					(118,584)
Issue of shares	2,187	(2,187)	–	–	–
Stock-based compensation	–	5,350	–	–	<u>5,350</u>
Balance – September 30, 2016	<u>8,587,995</u>	<u>430,738</u>	<u>(530,596)</u>	<u>(8,071,359)</u>	<u>416,778</u>

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2017 and 2016

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2017	2016	2017	2016
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Net (loss) income for the period	(68,118)	75,589	210,642	191,274
Items not affecting cash				
Amortization of tangible and intangible assets	502,978	391,158	1,450,812	1,130,918
Stock-based compensation	10,523	1,414	287,322	5,350
Unrealized foreign currency loss (income)	277,524	(96,373)	433,168	167,962
Loss on sale of assets	–	143,609	–	143,609
Income tax expense (recovery)	419	(18,482)	(27,420)	(65,919)
	<u>723,326</u>	<u>496,915</u>	<u>2,354,524</u>	<u>1,573,194</u>
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	51,528	375	(161,320)	(162,259)
(Increase) decrease in prepaid expenses	(3,313)	76,830	(35,596)	(66,547)
(Decrease) in deferred revenue	–	(59,085)	–	–
(Decrease) increase in accounts payable and accrued liabilities	<u>(111,529)</u>	<u>123,576</u>	<u>(321,736)</u>	<u>(56,738)</u>
Net cash provided by operations	660,012	638,611	1,835,872	1,287,650
Financing activities				
Borrowings from long-term debt	1,996,340	219,886	2,688,163	165,074
Repayment of long-term debt	(2,357,897)	(100,000)	(6,470,598)	(500,000)
Issuance of capital stock (net of fees)	54,000	–	4,908,966	–
Repayment of notes receivable from franchisees	20,720	15,060	66,100	13,281
Repayment of notes payable	<u>(28,523)</u>	<u>(10,498)</u>	<u>(63,363)</u>	<u>(31,628)</u>
	<u>(315,360)</u>	<u>124,448</u>	<u>1,129,268</u>	<u>(353,273)</u>
Investing activities				
Acquisitions	(42,949)	–	(1,148,905)	–
Cash held by advertising fund	52,613	11,614	46,784	8,108
Purchase of capital assets	(8,150)	(724,646)	(1,154,171)	(1,119,410)
Proceeds from disposal of capital assets	<u>(4,183)</u>	<u>264,400</u>	<u>273,916</u>	<u>264,400</u>
	<u>(2,669)</u>	<u>(448,632)</u>	<u>(1,982,376)</u>	<u>(846,902)</u>
Effect of foreign exchange rate changes on cash	<u>(106,795)</u>	<u>1,424</u>	<u>(189,427)</u>	<u>(37,495)</u>
Net change in cash for the period	<u>235,188</u>	<u>315,851</u>	<u>793,337</u>	<u>49,980</u>
Cash – Beginning of period	<u>1,569,592</u>	<u>582,326</u>	<u>1,011,443</u>	<u>848,197</u>
Cash – End of period	<u>1,804,780</u>	<u>898,177</u>	<u>1,804,780</u>	<u>898,177</u>

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under 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 September 30, 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 and nine months ended September 30, 2017 were authorized for issue in accordance with a resolution of the Directors on November 23, 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 September 30, 2017, the cash attributable to the Ad Fund amounted to \$198,305 (December 31, 2016 - \$261,304)

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

4 Equipment

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -		
	\$	\$	\$	\$	\$	\$	\$
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	30,165	38,050	59,349	298,807	692,386	24,820	1,143,577
Acquisition	4,780	3,120	79,918	179,797	465,898	12,714	746,227
Disposals	-	-	-	(87,625)	(222,756)	-	(310,381)
Foreign exchange	(6,260)	(1,513)	(40,120)	(91,486)	(215,897)	(4,673)	(359,949)
As at September 30, 2017	235,140	146,592	659,910	1,493,712	3,610,265	111,314	6,256,933

Accumulated depreciation	Computer	Furniture &	Bins &	Shredding	Shredding	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -		
	\$	\$	\$	\$	\$	\$	\$
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	23,463	7,796	69,036	170,198	395,783	16,573	682,849
Disposals	(61)	-	-	(21,830)	(50,911)	-	(72,802)
Foreign exchange	(4,008)	(959)	(25,337)	(29,189)	(69,951)	(4,028)	(133,472)
As at September 30, 2017	189,522	98,870	394,857	430,129	1,096,267	81,842	2,291,487

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 September 30, 2017	45,618	47,722	265,053	1,063,583	2,513,998	29,472	3,965,446

The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar functional currency in the acquiring company to Canadian presentation dollars at September 30, 2017 and December 31, 2016.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(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, 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
Acquisitions	–	–	–	42,850	561,600	604,450
Removal of original franchise agreement	(217,857)	–	–	–	–	(217,857)
Foreign exchange	(270,232)	–	–	(89,754)	(193,115)	(553,101)
As at September 30, 2017	2,631,550	978,000	1,672,500	1,225,975	3,106,565	9,614,590

Accumulated amortization	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
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	207,698	73,350	125,433	74,971	217,626	699,078
Removal of original franchise agreement	(195,098)	–	–	–	–	(195,098)
Foreign exchange	(236,650)	–	–	(82,822)	(78,165)	(397,637)
As at September 30, 2017	2,558,562	937,241	1,602,798	1,166,426	1,247,735	7,512,762

Net book value

As at December 31, 2016	337,027	114,109	195,135	98,602	1,629,806	2,374,679
As at September 30, 2017	72,988	40,759	69,702	59,549	1,858,830	2,101,828

On September 30, 2017, the Company acquired a customer list in Buffalo, New York. The estimated fair value at the date of purchase was US\$50,000. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at September 30, 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill as at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
	\$	\$
Opening balance	1,837,398	1,893,914
Foreign currency translation	(129,279)	(56,516)
Closing balance	1,708,119	1,837,398

7 Notes payable

As at September 30, 2017, notes payable is comprised of:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Note value	Maturity
December 31, 2015	US\$100,000	US\$2,997	5.00%	CAD\$54,045 US\$43,305	December 5, 2018
March 31, 2017	US\$125,000	US\$5,208	0.00%	CAD\$123,500 US\$98,958	April 1, 2019

8 Long-term debt

As at September 30, 2017 and December 31, 2016 long-term debt is comprised of:

	September 30, 2017	December 31, 2016
	\$	\$
Bank indebtedness	1,939,852	–
Less: deferred financing charges	(157,008)	–
Net bank indebtedness (i)	1,782,844	–
Related party line of credit (ii)	–	4,973,848
Truck loans (iii)	1,746,123	1,559,056
Finance lease liability (iv)	348,553	478,295
Related party term loans (v)	–	658,631
Total long-term debt	3,877,520	7,669,830
Less: current portion	(1,066,236)	(5,619,461)
Total long-term debt	2,811,284	2,050,369

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

8 Long-term debt (continued)

(i) Bank indebtedness

On July 28, 2017, the Company secured senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

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

As at September 30, 2017, the Company has advanced \$2 million on the non-revolving term loan.

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

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

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

1. A minimum fixed charge coverage ratio of 1.25:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 2.75:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 2.80:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed \$1 million in any fiscal year; and
5. Unfunded capital expenditures are not to exceed \$250,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12 month basis.

As at September 30, 2017, the Company was in compliance with all of the banking covenants.

(ii) Related party line of credit

On July 17, 2017, the Company replaced its' original related party line of credit facility with a new line of credit for a maximum amount of \$2.0 million. The new line of credit facility has a five year term maturing on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at September 30, 2017, the facility has not been drawn upon. (Refer to note 18).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

8 Long-term debt (continued)

(iii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as of September 30, 2017:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Maturity
October 24, 2013	US\$187,950	US\$3,731	7.00%	CAD\$127,798	CAD\$58,102 US\$46,556	October 24, 2018
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$222,230	CAD\$169,243 US\$135,611	June 23, 2020
July 22, 2015	US\$300,000	US\$7,283	7.50%	CAD\$263,184	CAD\$186,115 US\$149,131	July 22, 2019
December 22, 2015	US\$80,000	US\$2,480	7.50%	CAD\$5,355	CAD\$44,188 US\$35,407	December 5, 2018
July 5, 2016	US\$176,546	US\$3,904	6.40%	CAD\$201,682	CAD\$159,018 US\$127,418	September 5, 2020
September 5, 2016	US\$381,572	US\$7,392	5.95%	CAD\$539,975	CAD\$385,302 US\$308,736	August 5, 2021
March 22, 2017	US\$170,581	US\$3,282	5.71%	CAD\$320,345	CAD\$194,300 US\$155,689	March 22, 2022
May 3, 2017	US\$230,956	US\$4,465	5.99%	CAD\$291,036	CAD\$271,669 US\$217,684	May 5, 2022
May 4, 2017	US\$236,456	US\$4,549	5.71%	CAD\$298,054	CAD\$278,186 US\$222,772	May 4, 2022

(1) Blended monthly payments of principal and interest.

iv) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as of September 30, 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\$118,586	CAD\$78,461 US\$62,870	US\$37,680	December 20, 2018
July 17, 2014	US\$226,432	US\$3,861	7.62%	CAD\$189,730	CAD\$153,269 US\$122,811	US\$50,610	August 20, 2019
December 22, 2015	US\$170,000	US\$4,364	6.75%	CAD\$97,698	CAD\$116,923 US\$93,688	US\$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

8 Long-term debt (continued)

iv) Finance lease liability (continued)

Future minimum finance lease payments at September 30, 2017, stated in Canadian dollars, were as follows:

	2017	2018	2019	Total
	\$	\$	\$	\$
Lease payments	39,395	201,766	139,202	380,363
Finance charges	(6,252)	(21,360)	(4,198)	(31,810)
Net present values	33,143	180,406	135,004	348,553

At September 30, 2017, the future minimum lease payments have been translated at the closing exchange rate of USD\$1.00 = CAD\$1.248.

v) Related party term loans

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. The remaining loan was extinguished on July 28, 2017.

9 Capital stock

a) Authorized

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

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

b) Issued and fully paid

The following table summarizes the movements in the Company's common shares during the nine months ended September 30, 2017:

	<u>Common Stock</u>
	Number
Opening balance, January 1, 2017	28,939,658
Equity raise closed on January 23, 2017	13,447,669
Debenture conversion (note 10)	1,250,002
Debt conversion (note 8(v))	2,140,258
Options exercised (note 9(d))	1,405,000
Warrants exercised (note 9(e))	150,000
Closing balance, September 30, 2017	<u>47,332,587</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

9 Capital stock (continued)

b) Issued and fully paid (continued)

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

	Common stock	
	Number	\$
Balance, September 30, 2017	47,332,587	14,005,416
Balance, December 31, 2016	28,939,658	8,590,995

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the nine months ended September 30, 2017, was 45,541,310 (December 31, 2016 – 29,939,658). The diluted weighted average number of common shares outstanding for the nine months ended September 30, 2017, was 46,878,997 (December 31, 2016 – 29,693,461).

d) Stock options

At September 30, 2017, the Company has 1,444,000 options outstanding (December 31, 2016 – 2,100,000) and a weighted average exercise price of \$0.34 (December 31, 2016 - \$0.19). In the first nine months of 2017, 1,405,000 stock options were exercised (for the nine months ended September 30, 2016 – 55,000). There were 749,000 stock options granted during the nine months ended September 30, 2017 (for the nine months ended September 30, 2016 – 25,000). For the nine months ended September 30, 2017, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$287,322 (for the nine months ended September 30, 2016 – \$5,350).

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. During the three and nine months ended September 30, 2017, 150,000 warrants were exercised. As of September 30, 2017, there are 1,852,150 warrants outstanding

10 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

11 Revenue

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Royalties	478,975	480,039	1,529,709	1,391,350
Franchise fees	-	65,066	-	236,902
License fees	6,096	2,545	6,096	8,351
Shredding services	1,972,790	1,586,024	5,870,241	4,816,664
Sale of paper products	376,552	284,712	1,164,585	788,789
Total revenue	2,834,413	2,418,386	8,570,631	7,242,056

12 Corporate operating locations expenses by nature

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Shredding vehicle and related expenses	302,415	256,147	922,254	781,043
Employee wages expense	716,024	584,581	2,131,546	1,716,283
Employee benefit expense	116,891	93,425	362,660	309,600
Office and administration expense	261,893	228,586	793,288	705,874
Total corporate operating expenses	1,397,223	1,162,739	4,209,748	3,512,800

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

13 Selling, general and administrative expenses by nature

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Employee wages and benefits	277,579	244,764	850,614	738,715
Share-based compensation	10,523	1,414	287,322	5,350
Professional fees	46,241	44,619	161,728	193,584
Travel	42,681	32,169	140,735	107,854
Technology	87,980	100,059	273,175	291,593
Rent and office expense	35,222	26,219	96,921	90,398
Selling and development	28,710	15,232	74,894	63,162
Brokers fees	-	18,271	-	57,732
Amortization of deferred financing charges	-	1,842	-	5,526
Other expenses	43,658	30,310	104,827	64,634
Total selling, general and administrative expenses	572,594	514,899	1,990,216	1,618,548

Compensation of key management

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

	<i>3 months ended September 30</i>		<i>9 months ended September 30</i>	
	2017	2016	2017	2016
	\$	\$	\$	\$
Wages and benefits	172,463	118,600	530,525	342,716
Share-based compensation	10,870	995	34,662	4,931
Total	183,333	119,595	565,187	347,647

Key management personnel included the following:

Key Management	
2017	2016
1. Chief Executive Officer	1. Chief Executive Officer
2. Chief Financial Officer	2. Chief Financial Officer
3. Senior Vice President of Operations	3. Senior Vice President of Operations
4. Senior Vice President of Corporate Development	

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

14 Commitments

The Company has the following office lease commitments:

New York, New York	Expires October 31, 2017
Albany, New York	Expires March 31, 2019
North Virginia, Virginia	Expires August 31, 2019
Ft. Lauderdale, Florida	Expires August 31, 2020
Milwaukee, Wisconsin	Expires August 31, 2020
Syracuse, New York	Expires September 30, 2020
Charlotte, North Carolina	Expires April 30, 2021
Mississauga, Ontario	Expires September 30, 2023

Certain contracts include renewal options for various periods of time. For the nine months ended September 30, 2017, the Company incurred \$271,967 (nine months ended September 30, 2016 - \$230,236) 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	352,786
Between 1 and 5 years	896,209
Over 5 years	17,989
Total	<u>1,266,984</u>

15 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 and long-term debt.

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

Interest rate risk

The Company's cash is subject to interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.25% per annum. The Company also has a variable interest rate of prime plus 2.50% per annum on its Bank of Montreal term loan and prime plus 1.70% per annum on its Bank of Montreal line of credit. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 5.71% to 7.95% 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

15 Financial instruments and fair values (continued)

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, 2017, 6 franchisees accounted for 62% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2016 - 6 franchises accounted for 65%). For the nine months ended September 30, 2017, 3 franchisees accounted for 24% of the Company's revenues related to franchising and licensing (December 31, 2016 - 3 franchisees accounted for 23%). As of September 30, 2017, there were no accounts and notes receivable 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 September 30, 2017, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2017 and 2016, no customer accounted for more than 10% of the revenue related to corporate operations. As of September 30, 2017, 6% of accounts receivable related to corporate operations were over 90 days (December 31, 2016 – 9%). As at September 30, 2017, the Company has recorded an allowance for credit losses of \$1,700 (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 nine months ended September 30, 2017, the Company recorded a foreign exchange loss of \$367,553 (during the nine months ended September 30, 2016 – loss of \$72,637). Exchange rates utilized (USD to CDN):

As at,	September 30, 2017	December 31, 2016
	\$	\$
Close rate	1.25	1.34
For the nine months ended,	September 30, 2017	September 30, 2016
	\$	\$
Average rate	1.31	1.32

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

15 Financial instruments and fair values (continued)

Liquidity risk

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

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of \$2,056,260 at September 30, 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 \$3,332,032 at September 30, 2017 (December 31, 2016 - \$2,456,915) including a cash balance of \$1,804,780 (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	815,776	–	–	–
Notes payable	30,046	90,935	56,564	–
Long-term debt	262,508	803,880	2,968,300	–
Contingent consideration	–	53,272	21,528	–
Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	675	1,228	170	–
Long-term debt	26,188	69,231	163,692	–
Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	815,776	–	–	–
Notes payable	30,721	92,163	56,734	–
Long-term debt	288,696	873,111	3,131,992	–
Contingent consideration	–	53,272	21,528	–

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

15 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 September 30, 2017, amounted to \$122,263 (December 31, 2016 - \$199,290) with fair value estimated to be \$120,703 (December 31, 2016 - \$171,138), respectively.

16 Capital management

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

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

The Company has credit facilities with Bank of Montreal which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. Refer to note 8 for the financial covenants.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

17 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, 2017	September 30, 2017	September 30, 2017	September 30, 2017
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	529,017	1,004,080	271,683	1,804,780
Cash attributable to the Ad Fund	198,305	—	—	198,305
Trade receivables	156,195	820,395	65,772	1,042,362
Income tax receivable	19,947	—	—	19,947
Prepaid expenses	6,633	143,765	34,954	185,352
Notes receivable from franchisees	81,286	—	—	81,286
Total current assets	991,383	1,968,240	372,409	3,332,032
Non-current assets				
Notes receivable from franchisees	40,977	—	—	40,977
Equipment	—	3,924,209	41,237	3,965,446
Intangible assets	97,151	1,894,196	110,481	2,101,828
Goodwill	—	1,708,119	—	1,708,119
Total assets	1,129,531	9,494,764	524,127	11,148,402
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	355,370	123,327	337,079	815,776
Current portion of notes payable	—	120,976	—	120,976
Current portion of long-term debt	—	1,066,236	—	1,066,236
Current portion of contingent consideration	—	53,272	—	53,272
Total current liabilities	355,370	1,363,811	337,079	2,056,260
Non-current liabilities				
Long-term debt	—	2,811,284	—	2,811,284
Long-term note payable	—	56,568	—	56,568
Long-term contingent consideration	—	21,258	—	21,258
Deferred tax liability	185,302	—	—	185,302
Total liabilities	540,672	4,252,921	337,079	5,130,672

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

17 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	155,607	712,978	45,111	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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

17 Segment reporting (continued)

Geographic information

	September 30, 2017	December 31, 2016
Canada	\$	\$
Tangible assets	41,237	11,450
Intangible assets	110,481	309,253
United States		
Notes receivable from franchisees	122,263	199,290
Tangible assets	3,924,209	3,211,097
Intangible assets	1,991,347	2,065,426
Goodwill	1,708,119	1,837,398
Total		
Notes receivable from franchisees	122,263	199,290
Tangible assets	3,965,446	3,222,547
Intangible assets	2,101,828	2,374,679
Goodwill	1,708,119	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,	September 30, 2017	September 30, 2016
	\$	\$
United States		
Royalties	478,975	480,039
Franchise fees	–	65,066
Shredding services	1,972,790	1,586,024
Sale of paper and recycled products	376,552	284,712
Middle East		
License fees	6,096	2,545
For the nine months ended,	September 30, 2017	September 30, 2016
	\$	\$
United States		
Royalties	1,529,709	1,391,350
Franchise fees	–	236,902
Shredding services	5,870,241	4,816,664
Sale of paper and recycled products	1,164,585	788,789
Middle East		
License fees	6,096	8,351

RediShred Capital Corp.

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(expressed in Canadian dollars)

17 Segment reporting (continued)

Net income by operating segment

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

	For the three months ended September 30, 2017			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	485,071	2,349,342	–	2,834,413
Direct costs	–	(1,397,223)	–	(1,397,223)
Selling, general and administrative	(253,265)	(268,203)	(51,126)	(572,594)
Depreciation	–	(250,961)	(4,189)	(255,150)
Operating income (loss)	231,806	432,955	(55,315)	609,446
Amortization	(146,165)	(98,289)	–	(244,454)
Foreign exchange loss	–	–	(335,035)	(335,035)
Interest expense	–	(78,156)	–	(78,156)
Interest income	1,795	–	–	1,795
Income tax expense	(21,712)	–	–	(21,712)
Net income (loss)	65,724	256,510	(390,350)	(68,116)

	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)
Selling, general and administrative	(314,823)	(135,689)	(64,387)	(514,899)
Depreciation	–	(160,070)	–	(160,070)
Operating income (loss)	232,827	412,238	(64,387)	580,678
Amortization	(148,470)	(77,772)	–	(226,242)
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 (loss)	56,653	(16,847)	35,783	75,589

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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(expressed in Canadian dollars)

17 Segment reporting (continued)

Net income by operating segment (continued)

	For the nine months ended September 30, 2017			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,535,805	7,034,826	–	8,570,631
Direct costs	–	(4,209,748)	–	(4,209,748)
Selling, general and administrative	(813,157)	(771,525)	(405,534)	(1,990,216)
Depreciation	–	(697,866)	(9,503)	(707,369)
Operating income (loss)	722,648	1,355,687	(415,037)	1,663,298
Amortization	(448,740)	(285,213)	–	(733,953)
Foreign exchange loss	–	–	(367,553)	(367,553)
Interest expense	–	(284,489)	–	(284,489)
Interest income	6,125	–	–	6,125
Income tax expense	(43,233)	(29,552)	–	(72,785)
Net income (loss)	236,800	756,433	(782,590)	210,643

	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)
Selling, general and administrative	(830,482)	(448,641)	(339,425)	(1,618,548)
Depreciation	–	(443,110)	–	(443,110)
Operating income (loss)	806,121	1,200,902	(339,425)	1,667,598
Amortization	(448,432)	(235,804)	–	(684,236)
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 (loss)	336,637	291,359	(436,722)	191,274

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2017

(expressed in Canadian dollars)

18 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is no accounts receivable balance due from this franchise at September 30, 2017 (December 31, 2016 - \$580). During the nine months ended September 30, 2017, the Company earned royalties, service fees and interest income of \$96,080 (during the nine months ended September 30, 2016 - \$126,005) from this franchise.

On July 17, 2017, the Company replaced its' original related party line of credit facility with a new line of credit for a maximum amount of \$2.0 million. The new line of credit facility has a five year term maturing on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at September 30, 2017, the facility has not been drawn upon. (Refer to note 8).

On December 31, 2012, the Company issued \$375,000 convertible, unsecured subordinated, debentures to certain members of the Company's Board of Director's. On January 23, 2017, the convertible debentures were converted to common shares. (Refer to note 10).

Included in selling, general and administrative expenses for the nine months ended September 30, 2017 are insurance premium amounts of \$19,915 (for the nine months ended September 30, 2016 - \$9,379) 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. The remaining loan was extinguished on July 28, 2017. (Refer to note 8).