RediShred Capital Corp.

Consolidated Interim Financial Statements
March 31, 2016 and 2015
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

May 26, 2016

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2016.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at March 31, 2016 and December 31, 2015

(expressed in Canadian dollars)

	March 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash	556,130	848,197
Cash attributable to the Advertising Fund (note 3)	192,603	176,129
Trade receivables	917,645	951,793
Prepaid expenses	197,302	101,751
Notes receivable from franchisees	75,965	84,235
	1,939,645	2,162,105
Non-current assets		
Notes receivable from franchisees	95,698	122,071
Equipment (note 4)	2,910,170	3,155,192
Intangible assets (note 5)	2,984,711	3,380,248
Goodwill (notes 6)	1,778,966	1,893,914
	7,769,545	8,551,425
Total assets	9,709,190	10,713,530
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,064,016	959,562
Current taxes payable	13,183	14,035
Current portion of notes payable	41,556	44,254
Current portion of long-term debt (note 7)	664,874	1,087,933
Current portion of contingent consideration	40,625	34,600
	1,824,254	2,140,384
Non-current liabilities		
Long-term debt (note 7)	6,883,094	7,127,445
Long-term notes payable	77,849	94,146
Contingent consideration	24,375	34,600
Deferred tax liability	412,803	439,531
Convertible debentures (note 9)	348,603	347,412
	7,746,724	8,043,134
Total liabilities	9,570,978	10,183,518
Shareholders' Equity		
Capital stock (note 8)	8,585,808	8,585,808
Contributed surplus	428,219	427,575
Accumulated other comprehensive loss	(540,600)	(220,738)
Deficit	(8,335,215)	(8,262,633)
	138,212	530,012
Total liabilities and shareholders' equity	9,709,190	10,713,530

Commitments and contingency (note 13)

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income (Loss)

For the three months ended March 31, 2016 and 2015

(expressed in Canadian dollars)

	2016 $	2015 $
Revenue (note 10)	2,348,152	1,772,950
Corporate operating locations expenses (note 11)	(1,195,510)	(798,527)
Depreciation – equipment	(144,157)	(120,778)
Selling, general and administrative expenses (note 12)	(536,038)	(405,279)
Operating income	472,447	448,366
Amortization – intangible assets	(234,086)	(225,812)
Interest expense	(174,596)	(188,869)
Interest income	2,556	2,282
Income before foreign exchange and one-time items	**66,321**	**35,967**
Foreign exchange (loss) gain	(144,257)	561,664
Gain on sale of assets	-	3,096
Income (loss) before income taxes	(77,936)	600,727
Income tax recovery	5,354	5,111
Net income (loss) for the period	(72,582)	605,838
Foreign currency translation (loss)	(319,862)	(106,470)
Comprehensive income (loss) for the period	(392,444)	499,368
Net income (loss) per share		
Basic and diluted	(0.00)	0.02
Weighted average number of commons shares outstanding – basic	28,884,658	28,884,658
Weighted average number of commons shares outstanding – diluted	30,627,535	28,904,538

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, 2016 and 2015
(expressed in Canadian dollars)

	Capital stock and warrants $ (note 8)	Contributed surplus $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity/(deficiency) $
Balance – January 1, 2016	8,585,808	427,575	(220,738)	(8,262,633)	530,012
Net (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 8)	–	644	–	–	644
Balance – March 31, 2016	8,585,808	428,219	(540,600)	(8,335,215)	138,212
Balance – January 1, 2015	8,585,808	375,387	(172,610)	(9,154,872)	(366,287)
Net income for the period	–	–	–	605,838	605,838
Foreign currency translation loss	–	–	(106,470)	–	(106,470)
Comprehensive income for the period	–	–	–	–	499,368
Stock-based compensation (note 8)	–	59	–	–	59
Balance – March 31, 2015	8,585,808	375,446	(279,080)	(8,549,034)	133,140

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, 2016 and 2015
(expressed in Canadian dollars)

Cash provided by (used in)	**2016** **$**	**2015** **$**
Operating activities		
Net income (loss) for the period	(72,582)	605,838
Items not affecting cash		
Amortization of equipment and intangible assets	363,665	269,876
Stock-based compensation	644	59
Unrealized foreign currency loss (gain)	164,518	(521,670)
Gain on sale of assets	-	(3,096)
Income tax recovery	(5,354)	(5,111)
	450,891	345,896
Net change in non-cash working capital balances		
Decrease (increase) in trade receivables	34,148	(107,673)
(Increase) in prepaid expenses	(95,551)	(73,237)
Decrease in notes receivable from franchisees	34,643	202
Increase in accounts payable and accrued liabilities	104,454	135,992
Net cash from operations	528,585	301,180
Financing activities		
Repayment of long-term debt	(692,446)	(362,428)
Investing activities		
Cash held by advertising fund	(16,474)	10,831
Purchase of capital assets	(82,268)	(29,387)
	(98,742)	(18,556)
Effect of foreign exchange rate changes on cash	(29,464)	23,880
Net change in cash for the period	(292,067)	(55,924)
Cash – Beginning of period	848,197	366,212
Cash – End of period	556,130	310,288

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 six locations in the United States and, (3) licensing internationally.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting.* The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2015, which includes information necessary or useful to understanding the Company's business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2016. Together, Redishred and its subsidiaries are referred to as "the Company."

The Company's significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2015 and have been consistently applied in the preparation of these consolidated financial statements. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period's presentation.

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

The interim consolidated financial statements of the Company for the three months ended March 31, 2016 were authorized for issue in accordance with a resolution of the Directors on May 26, 2016.

3 Advertising fund

The Company manages an advertising fund (the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a level of sales of each location's revenue. In accordance with *IAS 18 – Revenue*, the revenue and expenses of the Ad Fund are recorded net in the Company's statements of comprehensive income because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at March 31, 2016, the cash attributable to the Ad Fund amounted to $192,603 (March 31, 2015 - $69,271).

(expressed in Canadian dollars)

4 Equipment

Cost	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles – box**	**Recycling equipment**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
As at January 1, 2015	139,170	71,997	358,403	931,060	2,242,363	–	66,206	3,809,199
Additions	6,602	9,468	56,301	97,512	278,338	–	–	448,221
Additions acquired in business combination	–	6,920	13,840	34,600	145,320	–	–	200,680
Sale of assets	–	–	–	(116,422)	(222,573)	–	(20,760)	(359,755)
Foreign exchange	8,106	4,192	68,985	187,004	443,022	–	11,441	722,750
As at December 31, 2015	153,878	92,577	497,529	1,133,754	2,886,470	–	56,887	4,821,095
Additions	839	946	16,168	–	47,874	–	16,442	82,269
Foreign exchange	(3,287)	(2,061)	(30,442)	(71,935)	(180,363)	–	(3,083)	(291,171)
As at March 31, 2016	**151,430**	**91,462**	**483,255**	**1,061,819**	**2,753,981**	**–**	**70,246**	**4,612,193**

Accumulated depreciation	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles - box**	**Recycling equipment**	**Vehicles**	**Total**
	$	**$**	**$**	$	**$**	**$**	**$**	**$**
As at January 1, 2015	126,249	68,037	148,679	226,806	599,501	–	45,451	1,214,723
Depreciation	8,247	2,883	90,053	120,171	289,336	–	8,304	518,994
Sale of assets	-	-	-	(98,829)	(181,661)	–	(17,108)	(297,598)
Foreign exchange	6,498	3,438	29,068	52,962	130,327	–	7,491	229,784
As at December 31, 2015	140,994	74,358	267,800	301,110	837,503	–	44,138	1,665,903
Depreciation	1,658	915	22,329	31,897	77,229	–	2,567	136,595
Foreign exchange	(2,785)	(1,480)	(16,499)	(21,398)	(56,004)	–	(2,309)	(100,475)
As at March 31, 2016	**139,867**	**73,793**	**273,630**	**311,609**	**858,728**	**–**	**44,396**	**1,702,023**
Net book value								
As at December 31, 2015	12,884	18,219	229,729	832,644	2,048,967	–	12,749	3,155,192
As at March 31, 2016	**11,563**	**17,669**	**209,625**	**750,210**	**1,895,253**	**–**	**25,850**	**2,910,170**

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

5 Intangible assets

Cost	**Franchise agreements**	**Proshred system**	**Trademarks and intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2015	2,680,301	978,000	1,672,500	1,102,239	2,079,286	8,512,326
Additions	–	–	–-	–-	335,620	335,620
Foreign exchange	540,142	–	–-	209,792	395,760	1,145,694
As at December 31, 2015	3,220,443	978,000	1,672,500	1,312,031	2,810,666	9,993,640
Additions	–	–	–	–	–	–
Foreign exchange	(205,024)	–	–	(79,632)	(170,590)	(455,246)
As at March 31, 2016	**3,015,419**	**978,000**	**1,672,500**	**1,232,399**	**2,640,076**	**9,538,394**

Accumulated amortization	**Franchise agreements**	**Proshred system**	**Trademarks and intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2015	1,931,544	668,291	1,142,877	749,957	514,950	5,007,619
Amortization	273,297	97,800	167,244	181,476	247,571	967,388
Foreign exchange	397,631	–	–	142,742	98,012	638,385
As at December 31, 2015	2,602,472	766,091	1,310,121	1,074,175	860,533	6,613,392
Amortization	–	24,450	41,811	92,974	65,999	225,234
Foreign exchange	(167,518)	–	–	(65,196)	(52,229)	(284,943)
As at March 31, 2016	**2,434,954**	**790,541**	**1,351,932**	**1,101,953**	**874,303**	**6,553,683**
Net book value						
As at December 31, 2015	617,971	211,909	362,379	237,856	1,950,133	3,380,248
As at March 31, 2016	**580,465**	**187,459**	**320,568**	**130,446**	**1,765,773**	**2,984,711**

During the three months ended March 31, 2016 the Company did not purchase any intangible assets. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2016 and December 31, 2015. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company's franchises and corporately owned locations in the US.

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill for the three months ended March 31, 2016 and for the year ended December 31, 2015:

	March 31, 2016	December 31, 2015
	$	$
Opening balance	1,893,914	1,591,079
Foreign currency translation	(114,948)	302,835
Closing balance	1,778,966	1,893,914

7 Long-term debt

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

	March 31, 2016	December 31, 2015
	$	$
Line of credit (i)	5,074,578	5,474,578
Less: deferred financing charges	(5,435)	(7,277)
Line of credit net of deferred financing charges	5,069,143	5,467,301
Truck loans (ii)	899,128	1,035,605
Finance lease liability (iii)	557,617	626,712
Term loans (iv)	1,022,080	1,085,760
Total long-term debt	7,547,968	8,215,378
Less: current portion	(664,874)	(1,087,933)
Total	6,883,094	7,127,445

(i) Line of Credit

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

(expressed in Canadian dollars)

7 **Long-term debt** (continued)

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at March 31, 2016:

Origination	Initial amount	Payment (1)	Interest per annum	Asset carrying value	Loan value	Maturity
August 3, 2012	US$125,556	US$2,545	8.00%	CAD$155,780	CAD$53,025 US$40,788	August 3, 2017
January 3, 2013	US$119,906	US$2,382	7.00%	CAD$212,484	CAD$63,689 US$48,992	January 5, 2018
January 31, 2013	US$171,516	US$3,407	7.00%	CAD$214,949	CAD$94,959 US$73,046	February 5, 2018
October 24, 2013	US$187,950	US$3,731	7.00%	CAD$183,778	CAD$136,978 US$105,368	October 24, 2018
September 16, 2014	US$204,000	US$4,055	7.00%	CAD$271,974	CAD$195,292 US$150,224	September 16, 2019
June 23, 2015	US$229,039	US$4,520	6.75%	CAD$276,193	CAD$259,311 US$199,470	June 23, 2020
December 22, 2015	US$80,000	US$2,480	7.50%	CAD$65,168	CAD$95,874 US$73,749	December 5, 2018

(1) Blended monthly payments of principal and interest.

iii) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as at March 31, 2016:

Origination	Initial amount	Payment (1)	Interest per annum	Asset carrying value	Loan value	Residual	Maturity
November 15, 2013	US$137,035	US$2,296	7.95%	CAD$184,387	CAD$123,061 US$94,662	US$37,680	December 20, 2018
July 17, 2014	US$226,432	US$3,861	7.62%	CAD$248,594	CAD$227,600 US$175,077	US$50,610	August 20, 2019
December 22, 2015	US$170,000	US$4,364	6.75%	CAD$157,625	CAD$206,956 US$159,197	US$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest

7 **Long-term debt** (continued)

iii) Finance lease liability (continued)

Future minimum finance lease payments at March 31, 2016, stated in Canadian dollars, were as follows:

	2016 $	2017 $	2018 $	2019 $	Total $
Lease payments	123,108	164,144	210,143	145,136	642,531
Finance charges	(28,546)	(29,746)	(22,250)	(4,372)	(84,914)
Net present values	94,562	134,398	187,893	140,764	557,617

The future minimum lease payments have been translated at the closing rate at March 31, 2016 using an exchange rate of USD$1.00 = CAD$1.30.

iv) *Term loans*

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

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

(b) A 5 year loan and security agreement in the amount of US$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The fair value of the loan on March 31, 2016 is CAD$97,500 (US$75,000);

(c) A 4 year loan and security agreement in the amount of CAD$100,000 with monthly blended payments of principal and interest of CAD$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity The loan bears interest at 9% per annum and the fair value of the loan on March 31, 2016 is CAD$39,580;

(d) A 4 year loan and security agreement in the amount of US$50,000 with monthly blended payments of principal and interest of US$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the fair value of the loan on March 31, 2016 is CAD$25,727 (US$19,790); and

(e) A 4 year loan and security agreement in the amount of US$300,000, repayable with monthly blended payments of principal and interest of US$7,283 maturing July 22, 2019. The loan bears interest at 7.5% per annum and the fair value of the loan at March 31, 2016 is CAD$333,523 (US$256,556). The loan is secured by three shredding vehicles with a carrying value of CAD$364,000 at March 31, 2016.

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 US$100,000 with blended monthly payments of principal and interest of US$2,997 maturing December 5, 2018. The note bears interest at 5% per annum.

(expressed in Canadian dollars)

8 Capital stock

a) Authorized

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

b) Issued and fully paid

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

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

	Common stock	
	Number	**$**
Balance, December 31, 2015 and March 31, 2016	28,884,658	8,585,808

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2016, was 28,884,658 (December 31, 2015 - 28,884,658). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2016, was 30,627,535 (December 31, 2015 – 28,904,538).

d) Stock options

At March 31, 2016, the Company has 1,830,000 options outstanding (December 31, 2015 – 1,830,000) and a weighted average exercise price of $0.17 (December 31, 2015 - $0.17). There were no stock options granted during the three months ended March 31, 2016 (for the three months ended March 31, 2015 – 5,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $644 (for the three months ended March 31, 2015 – $59)

9 Convertible debentures

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

(expressed in Canadian dollars)

	2016	2015
	$	$
Opening balance of liability component net of transaction costs	343,971	342,645
Accretion expense	4,632	1,326
Closing balance of liability component net of transaction costs	348,603	343,971
Equity component net of transaction costs	27,710	27,710
Deferred tax liability related to the equity component	7,633	7,633
Equity component net of transaction costs and tax	20,077	20,077

10 Revenue

The revenue earned by the Company for the three months ended March 31, 2016 and 2015 is broken down as follows:

	2016	2015
	$	$
Royalties	453,492	371,992
Franchise fees	-	24,766
License fees	2,636	2,130
Shredding services	1,642,515	1,136,674
Sale of paper products	249,509	237,388
Total revenue	2,348,152	1,772,950

11 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three months ended March 31, 2016 and 2015 are broken down as follows:

	2016	2015
	$	$
Shredding vehicle and related expenses	250,979	210,990
Employee wages expense	570,313	354,527
Employee benefit expense	118,256	85,508
Office and administration expense	286,808	147,502
Total corporate operating expenses	1,195,510	798,527

(expressed in Canadian dollars)

12 Selling, general and administrative expenses by nature

The selling, general and administrative expenses incurred by the Company for the three months ended March 31, 2016 and 2015 are broken down as follows:

	2016	2015
	$	$
Employee wages and benefits expense	234,779	182,586
Share-based compensation	644	59
Professional fees	88,477	54,424
Travel	35,310	29,204
Technology	98,850	80,164
Rent and office expense	32,831	26,494
Selling and development	16,621	19,564
Amortization of deferred financing charges	1,842	1,842
Other	26,684	10,942
Total selling, general and administrative expenses	536,038	405,279

Compensation of key management

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

	2016	2015
	$	$
Wages and benefits	97,200	87,107
Share-based compensation	580	–
Total	97,780	87,107

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. For the three months ended March 31, 2015, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Executive Vice President and former Vice President of Operations

(expressed in Canadian dollars)

13 Commitments and contingency

Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2018. Additionally, the Company leases facilities in Albany, which expires on March 31, 2017, Syracuse, which expires on September 30, 2020, Milwaukee, which expires on August 31, 2017, New York City, which expires on October 31, 2017 and Charlotte, which expires on April 30, 2017. Certain contracts include renewal options for various periods of time. For the three months ended March 31, 2016, the Company incurred $70,372 (three months ended March 31, 2015 - $67,253) 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	270,445
Between 1 and 5 years	227,770
Total	498,215

14 Financial instruments and fair values

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

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

Interest rate risk

The Company is subject to interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has a fixed rate on notes receivable from franchisees ranging from 4.25% to 8.25% per annum.

The line of credit facility has a fixed interest rate of 10% per annum and the term loans have a fixed interest rate of 7.5% to 9%. The truck loans have fixed interest rates ranging from 6.75% to 8.0% 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.

14 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, 2016, 6 franchisees accounted for 68% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2015 - 6 franchisees accounted for 72%). For the three months ended March 31, 2016, 3 franchisees accounted for 33% of the Company's revenues related to franchising and licensing (December 31, 2015 - 3 franchisees accounted for 28%). As of March 31, 2016, 7% of accounts and notes receivable were over 90 days old and related to one franchisee (December 31, 2015 – 3%).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At March 31, 2016 and December 31, 2015, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2016 and March 31, 2015, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2016, 14% of accounts receivable in this category were over 90 days old (December 31, 2015 – 12%). The Company has recorded an allowance for credit losses from receivables related to corporate operations of $20,000 (December 31, 2015 - $1,067). The Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

The Company is subject to the risk of exchange fluctuations between the US and Canadian dollar as its revenue and substantially all of its assets are denominated in USD.

A subsidiary of the Company has loans denominated in a currency other than their functional currency of CAD$565,330 as at March 31, 2016 (December 31, 2015 – CAD$571,807). Based on the financial liability held in the United States and denominated in CAD at March 31, 2016, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $25,000 (December 31, 2015 - $25,000).

The Company realized a foreign exchange loss of $144,257 (foreign exchange gain in March 31, 2015 - $561,664) during the three months ended March 31, 2016.

(expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of $8.3 million at March 31, 2016. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements.

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

The current liabilities of $1,824,254 at March 31, 2016 (December 31, 2015 - $2,140,384), are due to be settled within one year from the date of the Statement of Financial Position. The Company has current assets of $1,939,645 at March 31, 2016 (December 31, 2015 - $2,162,105) including a cash balance of $556,130 (December 31, 2015 - $848,197).

Principal	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Accounts payable and accrued liabilities	882,962	–	–	–
Notes payable	10,197	31,359	77,849	–
Convertible debentures	–	–	348,603	–
Long-term debt	138,499	531,811	6,883,094	–
Contingent consideration	16,248	24,377	24,375	-

Interest	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Notes payable	1,492	3,706	3,972	–
Convertible debentures	–	28,125	28,125	–
Long-term debt	38,102	649,303	705,390	–

Total principal and interest	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Accounts payable and accrued liabilities	882,962	–	–	–
Notes payable	11,689	35,065	81,821	–
Convertible debentures	–	28,125	376,728	–
Long-term debt	176,601	1,181,114	7,588,483	–
Contingent consideration	16,248	24,377	24,375	-

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 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, 2016, amounted to $171,663 (December 31, 2015 - $206,306) with fair value estimated to be $141,974 (December 31, 2015 - $177,627), 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.

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).

(expressed in Canadian dollars)

16 Segment reporting (continued)

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	March 31, 2016	March 31, 2016	March 31, 2016	March 31, 2016
ASSETS	$	$	$	$
Current assets				
Cash	116,108	329,493	110,529	556,130
Cash attributable to the Ad Fund	192,603	-	-	192,603
Trade receivables	224,794	657,575	35,276	917,645
Prepaid expenses	41,954	131,051	24,297	197,302
Notes receivable from franchisees	75,965	-	-	75,965
Total current assets	651,424	1,118,119	170,102	1,939,645
Non-current assets				
Notes receivable from franchisees	95,698	-	-	95,698
Equipment	-	2,895,932	14,238	2,910,170
Intangible assets	628,926	1,847,750	508,035	2,984,711
Goodwill	-	1,778,966	-	1,778,966
Total assets	1,376,048	7,640,767	692,375	9,709,190
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	347,049	173,740	543,227	1,064,016
Current taxes payable	13,183	-	-	13,183
Current portion of contingent consideration	-	40,625	-	40,625
Current portion of notes payable	-	41,556	-	41,556
Current portion of long-term debt	-	664,874	-	664,874
Total current liabilities	360,232	920,795	543,227	1,824,254
Non-current liabilities				
Long-term debt	-	6,883,094	-	6,883,094
Note Payable	-	77,849	-	77,849
Contingent consideration	-	24,375	-	24,375
Convertible debenture	-	-	348,603	348,603
Deferred tax liability	412,803	-	-	412,803
Total liabilities	773,035	7,906,113	891,830	9,570,978

(expressed in Canadian dollars)

16 Segment reporting (continued)

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

(expressed in Canadian dollars)

16 Segment reporting (continued)

Geographic information

Canada	**March 31, 2016** $	**December 31, 2015** $
Equipment	14,238	13,253
Intangible assets	508,035	574,297
United States		
Notes receivable from franchisees	171,663	206,306
Equipment	2,895,932	3,141,939
Intangible assets	2,476,676	2,805,951
Goodwill	1,778,966	1,893,914
Total		
Notes receivable from franchisees	171,663	206,306
Equipment	2,910,170	3,155,192
Intangible assets	2,984,711	3,380,248
Goodwill	1,778,966	1,893,914

Revenue

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

For the three months ended,	**March 31, 2016** $	**March 31, 2015** $
United States		
Royalties	453,492	371,992
Franchise fees	-	24,766
Shredding services	1,642,515	1,136,674
Sale of paper products	249,509	237,388
Middle East		
License fees	2,636	2,130

(expressed in Canadian dollars)

16 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, 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)

	For the three months ended March 31, 2015			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	398,888	1,374,062	–	1,772,950
Direct costs	–	(798,527)	–	(798,527)
Selling, general and administrative	(219,306)	(94,575)	(91,398)	(405,279)
Depreciation and amortization	(147,257)	(199,333)	–	(346,590)
Interest expense	–	(180,649)	(8,220)	(188,869)
Interest income	2,282	–	–	2,282
Foreign exchange gain	–	–	561,664	561,664
Gain on sale of assets	–	3,096	–	3,096
Income tax recovery	5,111	–	–	5,111
Net income	39,718	104,074	462,046	605,838

17 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. Included in accounts receivable at March 31, 2016, is $3,820 (March 31, 2015 - $163) due from this franchise. During the three months ended March 31, 2016, the Company earned royalty and service fees amounting to $31,411 (2015 - $26,212) 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, 2017, bearing interest at a fixed rate of 10% per annum (refer to note 7). The Company has drawn from its line of credit in order to finance the purchase of its corporate locations including Syracuse, Albany, Milwaukee in 2010 and New York City and Miami in 2012 as well as for general business purposes.

On December 31, 2012, the Company obtained equity and debt funding, directly or indirectly, from certain members of the Company's Board of Director's. The Company issued $375,000 convertible, unsecured subordinated, debentures. The debentures have a five-year term and a coupon of 7.5% interest per annum payable annually. The debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case the deferred interest payment will accrue additional interest at 7.5% per annum. Each $1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of $0.30 per share. (Refer to note 9)

In order to finance the acquisition of the Charlotte location, the Company obtained loans from related parties (refer to note 7).