

RediShred Capital Corp.

Consolidated Interim Financial Statements
September 30, 2015 and 2014
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

November 26, 2015

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, 2015.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at September 30, 2015 and December 31, 2014

(expressed in Canadian dollars)

	September 30, 2015 \$	December 31, 2014 \$
Assets		
Current assets		
Cash	922,138	366,211
Cash attributable to the Advertising Fund (note 3)	124,275	80,102
Trade receivables	674,828	588,018
Prepaid expenses	103,225	80,841
Notes receivable from franchisees	104,215	84,230
	<u>1,928,681</u>	<u>1,199,402</u>
Non-current assets		
Notes receivable from franchisees	113,817	159,841
Equipment (note 4)	2,929,105	2,594,476
Intangible assets (note 5)	3,191,164	3,504,707
Goodwill (notes 6)	1,826,177	1,591,079
	<u>8,060,263</u>	<u>7,850,103</u>
Total assets	<u>9,988,944</u>	<u>9,049,505</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	739,145	731,356
Current portion of notes payable	23,545	102,452
Current portion of long-term debt (note 7)	528,213	761,501
Deposit	124,709	-
	<u>1,415,612</u>	<u>1,595,309</u>
Non-current liabilities		
Long-term debt (note 7)	7,442,113	7,323,762
Deferred tax liability	160,900	154,076
Convertible debenture (note 9)	346,221	342,645
	<u>7,949,234</u>	<u>7,820,483</u>
Total liabilities	<u>9,364,846</u>	<u>9,415,792</u>
Shareholders' Equity		
Capital Stock (note 8)	8,585,808	8,585,808
Contributed surplus	426,934	375,387
Accumulated other comprehensive loss	(238,582)	(172,610)
Deficit	(8,150,062)	(9,154,872)
	<u>624,098</u>	<u>(366,287)</u>
Total liabilities and shareholders' equity	<u>9,988,944</u>	<u>9,049,505</u>
Commitments (note 13)		

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2015 and 2014
(expressed in Canadian dollars)

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue (note 10)	1,974,509	1,568,892	5,572,043	4,603,816
Corporate operating locations expenses (note 11)	(908,449)	(719,481)	(2,471,505)	(2,055,957)
Depreciation – equipment	(120,789)	(119,093)	(360,985)	(286,683)
Selling, general and administrative expenses (note 12)	(417,321)	(441,089)	(1,276,347)	(1,232,121)
Operating income	527,950	289,229	1,463,206	1,029,055
Amortization – intangible assets	(238,281)	(180,001)	(686,591)	(612,682)
Foreign exchange gain	201,440	113,589	694,973	250,557
Gain on sale of assets (note 4)	45,556	40,656	48,641	40,656
Interest expense	(193,578)	(216,662)	(562,307)	(621,837)
Interest income	4,312	2,627	8,562	7,346
Income before income taxes	347,399	49,438	966,484	93,095
Income tax recovery	15,861	13,353	38,326	40,265
Net income for the period	363,260	62,791	1,004,810	133,360
Foreign currency translation gain (loss)	45,975	16,486	(65,972)	(39,081)
Comprehensive income for the period	409,235	79,277	938,838	94,279
Net income per share				
Basic and diluted	0.013	0.002	0.035	0.005
Weighted average number of commons shares outstanding – basic and diluted	28,884,658	28,884,658	28,884,658	28,884,658
Weighted average number of commons shares outstanding – diluted	28,967,158	28,884,658	28,967,158	28,884,658

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2015 and 2014

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 8)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity/deficiency \$
Balance – January 1, 2015	8,585,808	375,387	(172,610)	(9,154,872)	(366,287)
Net income for the period	–	–	–	1,004,810	1,004,810
Other comprehensive loss					
Foreign currency translation loss	–	–	(65,972)	–	(65,972)
Comprehensive income for the period	–	–	–	–	938,838
Stock-based compensation (note 8)	–	51,547	–	–	51,547
Balance – September 30, 2015	8,585,808	426,934	(238,582)	(8,150,062)	624,098
Balance – January 1, 2014	8,585,808	372,479	(134,400)	(9,397,667)	(573,780)
Net income for the period	–	–	–	133,360	133,360
Other comprehensive loss					
Foreign currency translation loss	–	–	(39,081)	–	(39,081)
Comprehensive income for the period	–	–	–	–	94,279
Stock-based compensation (note 8)	–	126	–	–	126
Balance – September 30, 2014	8,585,808	372,605	(173,481)	(9,264,307)	(479,375)

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2015 and 2014

(expressed in Canadian dollars)

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net income for the period	363,260	62,791	1,004,810	133,360
Items not affecting cash				
Amortization of equipment and intangible assets	359,070	300,936	1,047,576	904,889
Stock-based compensation	454	58	51,547	126
Unrealized foreign currency (gain)	(328,500)	(33,621)	(663,447)	(218,711)
(Gain) on sale of assets	(45,545)	(40,656)	(48,641)	(40,656)
Income tax recovery	(15,861)	(13,353)	(38,326)	(40,265)
	<u>332,878</u>	<u>276,155</u>	<u>1,353,519</u>	<u>738,743</u>
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	53,582	(35,878)	(86,810)	(161,530)
Decrease (increase) in prepaid expenses	6,623	(2,887)	(22,384)	(5,964)
Decrease in notes receivable from franchisees	965	27,747	26,039	59,589
Decrease in deferred revenue	-	-	-	(57,966)
Increase in deposits	124,709	-	124,709	-
Increase in accounts payable and accrued liabilities	<u>154,305</u>	<u>93,263</u>	<u>7,789</u>	<u>79,883</u>
Net cash provided by operations	673,062	358,400	1,402,862	652,755
Financing activities				
Repayment of long-term debt	(126,529)	(127,766)	(126,442)	(311,026)
Borrowings (repayment) on line of credit	(203,158)	482,084	(244,679)	482,084
Repayment of notes payable	(25,741)	(22,982)	(78,907)	(85,049)
	<u>(355,428)</u>	<u>331,336</u>	<u>(450,028)</u>	<u>86,009</u>
Investing activities				
Cash held by advertising fund	(31,021)	57,208	(44,173)	31,800
Sale of capital assets	81,900	8,190	81,900	8,190
Purchase of capital assets	<u>(36,681)</u>	<u>(547,474)</u>	<u>(368,663)</u>	<u>(581,370)</u>
	<u>14,198</u>	<u>(482,076)</u>	<u>(330,936)</u>	<u>(541,380)</u>
Foreign currency translation gain (loss)	<u>45,973</u>	<u>7,132</u>	<u>(65,972)</u>	<u>14,759</u>
Net change in cash for the period	<u>377,805</u>	<u>214,792</u>	<u>555,926</u>	<u>212,143</u>
Cash – Beginning of period	<u>544,333</u>	<u>346,349</u>	<u>366,212</u>	<u>348,998</u>
Cash – End of period	<u>922,138</u>	<u>561,141</u>	<u>922,138</u>	<u>561,141</u>

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

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

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2014, 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, 2015. 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, 2014 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, 2015 were authorized for issue in accordance with a resolution of the Directors on November 26, 2015.

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, 2015, the cash attributable to the Ad Fund amounted to \$124,275 (2014 - \$31,575).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

4 Equipment

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2014	132,256	66,658	260,050	751,801	1,769,531	–	61,583	3,041,879
Additions	5,198	420	77,481	152,565	382,416	–	–	618,080
Sale of assets	(8,045)	–	–	(50,576)	(84,106)	–	–	(142,727)
Foreign exchange	9,761	4,919	20,872	77,270	174,522	–	4,623	291,967
As at December 31, 2014	139,170	71,997	358,403	931,060	2,242,363	–	66,206	3,809,199
Additions	4,652	791	39,266	91,502	219,926	12,525	–	368,663
Sale of assets	(1,989)	–	–	(24,000)	(56,000)	–	–	(81,989)
Foreign exchange	15,309	7,920	39,424	102,417	269,817	142	7,283	442,311
As at September 30, 2015	157,142	80,708	437,093	1,100,979	2,676,106	12,667	73,489	4,538,184

Accumulated depreciation	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2014	107,911	58,579	82,997	158,560	404,305	–	34,444	846,796
Depreciation	9,478	5,059	59,557	99,587	228,107	–	8,465	410,253
Sale of assets	–	–	–	(43,043)	(62,749)	–	–	(105,792)
Foreign exchange	8,860	4,399	6,125	11,702	29,838	–	2,542	63,466
As at December 31, 2014	126,249	68,037	148,679	226,806	599,501	–	45,451	1,214,723
Depreciation	6,762	2,576	54,816	104,791	183,639	1,268	7,133	360,985
Sale of assets	(554)	–	–	(15,333)	(35,773)	–	–	(51,660)
Foreign exchange	8,837	4,763	10,408	15,876	41,965	–	3,182	85,031
As at September 30, 2015	141,295	75,375	213,903	332,140	789,332	1,268	55,766	1,609,079

Net book value								
As at December 31, 2014	12,921	3,960	209,724	704,254	1,642,862	–	20,755	2,594,476
As at September 30, 2015	15,847	5,333	223,190	768,839	1,866,774	11,257	17,723	2,929,105

During the nine months ended September 30, 2015, the Company purchased a shredding vehicle, computers, furniture, shredding containers and a hard-drive crusher. The foreign exchange adjustment is a result of the translation of foreign operation corporate equipment assets in US dollars to Canadian dollars at September 30, 2015 and December 31, 2014. Depreciation related to the corporate stores and the franchising and licensing business is included in the statement of comprehensive income.

The Company has two shredding vehicles held under a finance lease arrangement. As of September 30 2015, the net carrying amount of the related shredding vehicles, included as part of equipment is \$472,508. The finance lease liabilities (refer to note 7) are secured by the related assets.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(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, 2014	2,385,532	978,000	1,672,500	1,008,159	1,886,225	7,930,416
Additions	–	–	–	–	14,713	14,713
Foreign exchange	294,769	–	–	94,080	178,348	567,197
As at December 31, 2014	2,680,301	978,000	1,672,500	1,102,239	2,079,286	8,512,326
Additions	–	–	–	–	–	–
Foreign exchange	482,678	–	–	173,042	350,286	1,006,006
As at September 30, 2015	3,162,979	978,000	1,672,500	1,275,281	2,429,572	9,518,332

Accumulated amortization	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2014	1,517,307	570,491	975,627	527,607	280,137	3,871,169
Amortization	215,859	97,800	167,250	163,700	196,148	840,757
Reversal of previous impairment	(27,452)	–	–	–	–	(27,452)
Foreign exchange	225,830	–	–	58,650	38,665	323,145
As at December 31, 2014	1,931,544	668,291	1,142,877	749,957	514,950	5,007,619
Amortization	203,542	73,350	125,424	105,295	178,980	686,591
Foreign exchange	366,808	–	–	146,932	119,218	632,958
As at September 30, 2015	2,501,894	741,641	1,268,301	1,002,184	813,148	6,327,168

Net book value						
	\$	\$	\$	\$	\$	\$
As at December 31, 2014	748,757	309,709	529,623	352,282	1,564,336	3,504,707
As at September 30, 2015	661,085	236,359	404,199	273,097	1,616,424	3,191,164

During the nine months ended September 30, 2015 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 September 30, 2015 and December 31, 2014. Amortization of intangible assets for the period is included in the statement of comprehensive income.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill as at September 30, 2015 and December 31, 2014:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
	\$	\$
Opening balance	1,591,079	1,455,467
Foreign currency translation	235,098	135,612
Closing balance	<u>1,826,177</u>	<u>1,591,079</u>

7 Long-term debt

As at September 30, 2015 and December 31, 2014 long-term debt is comprised of:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
	\$	\$
Line of credit (i)	5,519,578	5,769,860
Less: deferred financing charges	(9,119)	(14,722)
Line of credit net of deferred financing charges	5,510,459	5,755,138
Truck loans (ii)	965,403	806,077
Finance lease liability (iii)	394,563	386,855
Term loans (iv)	1,099,901	1,137,193
Total long-term debt	7,970,326	8,085,263
Less: current portion	(528,213)	(761,501)
Total	<u>7,442,113</u>	<u>7,323,762</u>

(i) Line of Credit

The line of credit was entered into on November 27, 2009 with a related party entity (see note 17) for a maximum amount of \$4 million. The line of credit bears interest at a fixed rate of 10% per annum, and is secured by a general security agreement over the Company's assets. Deferred financing charges in respect of this facility are charged to expense over the term of the facility. During the year ended December 31, 2012, the line of credit was increased to \$6.03 million. The terms of the agreement remained unchanged upon increasing the line of credit. The Company has drawn from its line of credit in order to finance the purchase of all of its corporate locations with the exception of Charlotte and for general business purposes. In September of 2013, the Company executed an amendment to its existing line of credit facility, extending the facility's term for an additional three years to November 27, 2017. The other terms of the agreement remained unchanged. The total unamortized transactions costs as at September 2013 are amortized over the extended term of four years, ending November 27, 2017. The Company has \$511,675 available for use on its line as of September 30, 2015.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

7 Long-term debt (continued)

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at September 30, 2015:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Asset carrying value	Loan value	Maturity
November 11, 2011	US\$240,000	US\$5,690	8.14%	CAD\$252,731	CAD\$7,542 US\$5,652	October 3, 2015
August 3, 2012	US\$125,556	US\$2,545	8.00%	CAD\$172,530	CAD\$72,222 US\$54,119	August 13, 2017
January 3, 2013	US\$119,906	US\$2,382	7.00%	CAD\$236,188	CAD\$81,796 US\$61,293	January 5, 2018
January 31, 2013	US\$171,516	US\$3,407	7.00%	CAD\$234,879	CAD\$120,822 US\$90,537	February 5, 2018
October 24, 2015	US\$187,950	US\$3,731	7.00%	CAD\$201,163	CAD\$164,999 US\$123,642	October 24, 2018
September 16, 2014	US\$204,000	US\$4,055	7.00%	CAD\$291,033	CAD\$225,265 US\$168,801	September 16, 2019
June 23, 2015	US\$229,039	US\$4,520	6.75%	CAD\$306,396	CAD\$292,758 US\$219,377	June 23, 2020

(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 September 30, 2015:

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\$201,760	CAD\$139,385 US\$104,447	US\$37,680	December 20, 2018
July 17, 2014	US\$226,432	US\$3,861	7.62%	CAD\$270,748	CAD\$255,178 US\$191,216	US\$50,610	August 20, 2019

(1) Blended monthly payments of principal and interest.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

Future minimum finance lease payments at September 30, 2015, stated in Canadian dollars, are as follows:

	Minimum lease payments due					Total \$
	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	
Lease payments	24,650	98,613	98,614	145,831	103,615	471,323
Finance charges	(7,521)	(26,683)	(20,911)	(17,413)	(4,234)	(76,762)
Net present values	17,129	71,930	77,703	128,418	99,381	394,561

The future minimum lease payments have been translated at the closing rate at September 30, 2015 using an exchange rate of USD\$1.00 = CAD\$1.3345.

iv) *Term loans*

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

- (a) A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The value of the loan on September 30, 2015 is CAD\$525,750;
- (b) A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The value of the loan on September 30, 2015 is CAD\$100,088 (US\$75,000);
- (c) A 4 year loan and security agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the value of the loan on September 30, 2015 is CAD\$52,391;
- (d) A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the value of the loan on September 30, 2015 is CAD\$34,959 (US\$26,195); and
- (e) A 4 year loan and security agreement in the amount of US\$300,000, repayable with monthly blended payments of principal and interest of US\$7,283 maturing July 22, 2019. The loan bears interest at 7.5% per annum and is secured by three shredding vehicles with a carrying value of CAD\$408,688 at September 30, 2015. The value of the loan on September 30, 2015 is CAD\$386,714 (US\$289,782).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

8 Capital stock

f) Authorized

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

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

b) Issued and fully paid

For the three and nine months ended September 30, 2015 and the year ended December 31, 2014, there were no changes in issued common shares of the Company.

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

	<u>Common stock</u>	
	<u>Number</u>	<u>\$</u>
Balance, December 31, 2014 and September 30, 2015	<u>28,884,658</u>	<u>8,585,808</u>

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three and nine months ended September 30, 2015, was 28,884,658 (December 31, 2014 - 28,884,658).

d) Stock options

At September 30, 2015, the Company has 1,840,000 options outstanding (December 31, 2014 – 1,252,500) and a weighted average exercise price of \$0.14 (December 31, 2014 - \$0.18). During the nine months ended September 30, 2015, 142,500 stock options expired (for the nine months ended September 30, 2014 – 280,000). There were 730,000 stock options granted during the nine months ended September 30, 2015 (for the nine months ended September 30, 2014 – 10,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$51,547 (for the nine months ended September 30, 2014 – \$126).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(expressed in Canadian dollars)

9 Convertible debentures

On December 31, 2012, the Company issued \$375,000 convertible, unsecured subordinated, debentures. The debentures have a five-year term and a coupon of 7.5% interest per annum. Each \$1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of \$0.30 per share at any time prior to maturity. Conversion may occur at any time prior to the maturity date of December 31, 2017. The Company may, at its option, redeem the debentures, in whole or in part, at a redemption price equal to the principal amount plus accrued interest and unpaid interest. Interest of 7.5% per annum will be paid annually on the anniversary of the grant date. Debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case such deferred interest payment shall accrue additional interest at 7.5% per annum. The convertible debentures contain two components: liability and equity elements. The equity element is presented in equity under the label of 'issue of convertible debentures' as contributed surplus. The effective interest rate of the liability element on initial recognition is 9.5% per annum (2014 – 9.5%).

	2015	2014
	\$	\$
Opening balance of liability component net of transaction costs	342,645	337,882
Accretion expense	3,576	4,763
Closing balance of liability component net of transaction costs	346,221	342,645
Equity component net of transaction costs	27,710	27,710
Deferred tax liability related to the equity component	7,633	7,633
Equity component net of transaction costs and tax	20,077	20,077

10 Revenue

The revenue earned by the Company for the three and nine months ended September 30, 2015 and 2014 is broken down as follows:

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Royalties	415,832	288,974	1,166,812	832,223
Franchise fees	520	30,451	25,200	95,681
License fees	3,600	2,118	8,029	7,715
Shredding services	1,309,120	1,032,669	3,644,651	3,020,144
Sale of paper products	245,437	214,680	727,351	648,053
Total revenue	1,974,509	1,568,892	5,572,043	4,603,816

RediShred Capital Corp.

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11 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three and nine months ended September 30, 2015 and 2014 are broken down as follows:

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Shredding expenses	229,562	196,945	624,857	563,677
Employee wages expense	409,813	304,170	1,135,972	886,766
Employee benefit expense	95,498	79,901	248,052	207,729
Office and administration expense	173,576	138,465	462,624	397,785
Total corporate operating expenses	908,449	719,481	2,471,505	2,055,957

12 Selling, general and administrative expenses by nature

The selling, general and administrative expenses incurred by the Company for the three and nine months ended September 30, 2015 and 2014 are broken down as follows:

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee wages expense	180,923	169,528	507,080	514,622
Employee benefits expense	15,701	13,293	51,433	48,277
Share-based compensation	453	58	51,547	126
Professional fees	42,346	70,974	142,184	154,597
Technology	88,177	63,361	249,648	180,907
Rent and office expense	25,242	21,984	66,186	66,253
Selling and development	14,020	10,039	57,275	82,901
Amortization of deferred financing charges	1,842	1,842	5,526	5,526
Other	48,617	90,010	145,468	178,912
Total selling, general and administrative expenses	417,321	441,089	1,276,347	1,232,121

Compensation of key management

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

	<i>For the 3 months ended Sept 30</i>		<i>For the 9 months ended Sept 30</i>	
	2015	2014	2015	2014
	\$	\$	\$	\$
Wages and benefits	95,261	127,043	266,380	380,021
Share-based compensation	-	14	18,202	41
Total	95,261	127,057	284,582	380,062

RediShred Capital Corp.

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

For the nine months ended September 30, 2015, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Vice President Finance and Executive Vice President. For the nine months ended September 30, 2014, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Executive Vice President, former Vice President of Operations and former President.

13 Commitments

The Company has the following lease commitments:

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

Certain contracts include renewal options for various periods of time. For the nine months ended September 30, 2015, the Company incurred \$185,948 (nine months ended September 30, 2014 - \$160,423) 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	228,972
Between 1 and 5 years	<u>342,173</u>
Total	<u><u>571,145</u></u>

14 Financial instruments and fair values

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

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

Interest rate risk

The Company's cash is subject to cash flow risk, as it earns interest at prevailing and fluctuating market rates. The Company has a fixed rate on notes receivable from franchisees ranging from 4.25% to 8.25% per annum, and the line of credit facility has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 6.502% to 8.14% per annum. The loans in connection with the Charlotte purchase have fixed interest rates of 9% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

RediShred Capital Corp.

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14 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, 2015, 6 franchisees accounted for 69% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2014 - 6 franchisees accounted for 72%). For the nine months ended September 30, 2015, 3 franchisees accounted for 22% of the Company's revenues related to franchising and licensing (December 31, 2014 - 3 franchisees accounted for 28%). As of September 30, 2015, 4% of accounts and notes receivable were over 90 days old and related to one franchisee (December 31, 2014 - 3%).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At September 30, 2015 and December 31, 2014, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2015 and September 30, 2014, no customer accounted for more than 10% of the Company's revenues in this category. As of September 30, 2015, 7% of accounts receivable in this category was over 90 days old (December 31, 2014 - 4%). The Company has not recorded an allowance for credit losses from receivables related to corporate operations (December 31, 2014 - \$2,417). 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.

The Company realized a foreign exchange gain of \$694,973 (September 30, 2014 - \$250,557) during the nine months ended September 30, 2015.

RediShred Capital Corp.

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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 \$8.15million at September 30, 2015. 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 \$1,415,612 at September 30, 2015 (December 31, 2014 - \$1,595,309), are due to be settled within one year from the date of the Statement of Financial Position. The Company has current assets of \$1,928,681 at September 30, 2015 (December 31, 2014 - \$1,199,402) including a cash balance of \$922,138 (December 31, 2014 - \$366,211).

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	543,975	–	–	–
Notes payable	23,545	–	–	–
Convertible debentures	–	–	346,221	–
Long-term debt	168,249	973,097	6,828,977	–

Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	260	–	–	–
Convertible debentures	–	28,125	56,250	–
Long-term debt	314,321	417,962	970,357	–

Liquidity risk

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	543,975	–	–	–
Notes payable	23,805	–	–	–
Convertible debentures	–	28,125	402,471	–
Long-term debt	482,570	1,391,059	7,799,334	–

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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14 Financial instruments and fair values (continued)

Fair value of financial instruments

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

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at September 30, 2015, amounted to \$218,032 (December 31, 2014 - \$244,071) with fair value estimated to be \$217,349 (December 31, 2014 - \$201,532), respectively.

15 Capital management

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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16 Segment reporting

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	Sept 30, 2015	Sept 30, 2015	Sept 30, 2015	Sept 30, 2015
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	413,104	213,429	295,605	922,138
Cash attributable to the Ad Fund	124,275	–	–	124,275
Trade receivables	148,870	510,940	15,018	674,828
Prepaid expenses	10,791	60,082	32,352	103,225
Notes receivable from franchisees	104,215	–	–	104,215
Total current assets	801,255	784,451	342,975	1,928,681
Non-current assets				
Notes receivable from franchisees	113,817	–	–	113,817
Equipment	–	2,925,767	3,338	2,929,105
Intangible assets	661,084	1,889,522	640,558	3,191,164
Goodwill	–	1,826,177	–	1,826,177
Total assets	1,576,156	7,425,917	986,871	9,988,944
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	172,234	438,917	127,994	739,145
Current portion of notes payable	–	23,545	–	23,545
Current portion of long-term debt	–	528,213	–	528,213
Deferred revenue	124,709	–	–	124,709
Total current liabilities	296,943	990,675	127,994	1,415,612
Non-current liabilities				
Long-term debt	–	7,442,113	–	7,442,113
Convertible debenture	–	–	346,221	346,221
Deferred tax liability	160,900	–	–	160,900
Total liabilities	457,843	8,432,788	474,215	9,364,846

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

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16 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	December 31, 2014	December 31, 2014	December 31, 2014	December 31, 2014
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash	77,662	98,190	190,359	366,211
Cash attributable to the Ad Fund	80,102	—	—	80,102
Trade receivables	118,200	449,951	19,867	588,018
Prepaid expenses	4,420	52,801	23,620	80,841
Notes receivable from franchisees	84,230	—	—	84,230
Total current assets	364,614	600,942	233,846	1,199,402
Non-current assets				
Notes receivable from franchisees	159,841	—	—	159,841
Equipment	—	2,589,812	4,664	2,594,476
Intangible assets	748,747	1,916,619	839,341	3,504,707
Goodwill	—	1,591,079	—	1,591,079
Total assets	1,273,202	6,698,452	1,077,851	9,049,505
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	131,784	487,631	111,941	731,356
Current portion of notes payable	2,081	100,371	—	102,452
Current portion of long-term debt	—	761,501	—	761,501
Total current liabilities	133,865	1,349,503	111,941	1,595,309
Non-current liabilities				
Long-term debt	—	7,323,762	—	7,323,762
Convertible debenture	—	—	342,645	342,645
Deferred tax liability	154,076	—	—	154,076
Total liabilities	287,941	8,673,265	454,586	9,415,792

RediShred Capital Corp.

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16 Segment reporting (continued)

Geographic information – Equipment, Intangibles and Goodwill

As at September 30, 2015	Canada	United States of America	Total
	\$	\$	\$
Equipment	3,338	2,925,767	2,929,105
Intangible assets	640,558	2,550,606	3,191,164
Goodwill	-	1,826,177	1,826,177
As at December 31, 2014	Canada	United States of America	Total
	\$	\$	\$
Equipment	4,664	2,589,812	2,594,476
Intangible assets	839,341	2,665,366	3,504,707
Goodwill	-	1,591,079	1,591,079

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,	Sept 30, 2015	Sept 30, 2014
	\$	\$
United States		
Royalties	415,832	288,974
Franchise fees	520	30,451
Shredding services	1,309,120	1,032,669
Sale of paper products	245,437	214,680
Middle East		
License fees	3,600	2,118

RediShred Capital Corp.

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16 Segment reporting (continued)

Geographic information (continued)

For the nine months ended,	Sept 30, 2015	Sept 30, 2014
	\$	\$
United States		
Royalties	1,166,812	832,223
Franchise fees	25,200	95,681
Shredding services	3,644,651	3,020,144
Sale of paper products	727,351	648,053
Middle East		
License fees	8,029	5,597

Net income (loss) by operating segment

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

For the three months ended September 30, 2015

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

For the three months ended September 30, 2014

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	321,543	1,247,349	–	1,568,892
Direct costs	–	(719,481)	–	(719,481)
Corporate overhead	(170,662)	(132,300)	(136,285)	(439,247)
Depreciation and amortization	(136,925)	(164,011)	–	(300,936)
Foreign exchange gain	–	–	113,589	113,589
Interest expense	–	(208,442)	(8,220)	(216,662)
Interest income	2,627	–	–	2,627
Gain on sale of assets	–	40,656	–	40,656
Income tax recovery	13,353	–	–	13,353
Net income (loss)	29,936	63,771	(30,916)	62,791

RediShred Capital Corp.

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16 Segment reporting (continued)

Net income (loss) by operating segment (continued)

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

	For the nine months ended September 30, 2014			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	935,619	3,668,197	–	4,603,816
Direct costs	–	(2,055,957)	–	(2,055,957)
Corporate overhead	(539,287)	(354,976)	(332,333)	(1,226,596)
Depreciation and amortization	(411,832)	(493,058)	–	(904,890)
Foreign exchange gain	–	–	250,557	250,557
Interest expense	–	(597,177)	(24,660)	(621,837)
Interest income	7,346	–	–	7,346
Gain on sales of assets	–	40,656	–	40,656
Income tax recovery	40,265	–	–	40,265
Net income (loss)	32,111	40,656	(106,436)	133,360

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 September 30, 2015, is \$nil (December 31, 2014 - \$nil) due from this franchise. During the nine months ended September 30, 2015, the Company earned royalty and service fees amounting to \$87,650(2014 - \$72,036) 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. The Company has \$511,675 available for use on its line as of September 30, 2015.

RediShred Capital Corp.

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17 Related party balances and transactions (continued)

Included in selling, general and administrative expenses for the nine months ended September 30, 2015 are insurance premium amounts of \$13,200 (2014 - \$14,753) paid to an insurance brokerage firm, managed by a Director of the Company.

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

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with related parties (see note 7):

- (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 estimated fair value of the loan on September 30, 2015 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 estimated fair value of the loan on September 30, 2015 is CAD\$100,088 (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 estimated fair value of the loan on September 30, 2015 is CAD\$52,391;
- (d) A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on September 30, 2015 is CAD\$34,959 (US\$26,195); and