

# **RediShred Capital Corp.**

Consolidated Interim Financial Statements

**March 31, 2014 and 2013**

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

**May 28, 2014**

**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, 2014.**

# RediShred Capital Corp.

## Consolidated Statements of Financial Position

As at March 31, 2014 and December 31, 2013

(expressed in Canadian dollars)

	March 31, 2014 \$	December 31, 2013 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	348,920	348,998
Cash attributable to the Advertising Fund (note 3)	66,361	63,375
Trade receivables	542,987	448,982
Prepaid expenses	116,276	98,018
Notes receivable from franchisees	81,636	148,633
	<u>1,156,180</u>	<u>1,108,006</u>
<b>Non-current assets</b>		
Notes receivable from franchisees	227,032	166,112
Equipment (note 4)	2,209,696	2,195,083
Intangible assets (note 5)	3,965,466	4,059,247
Goodwill (notes 6)	1,512,806	1,455,467
	<u>7,915,000</u>	<u>7,875,909</u>
<b>Total assets</b>	<u>9,071,180</u>	<u>8,983,915</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	718,348	606,508
Current portion of notes payable	108,124	112,804
Deferred revenue	—	57,966
Current portion of long-term debt (note 7)	672,802	648,004
Contingent consideration	5,528	5,318
	<u>1,504,802</u>	<u>1,430,600</u>
<b>Non-current liabilities</b>		
Long-term debt (note 7)	7,438,376	7,476,411
Long-term notes payable	69,736	98,452
Deferred tax liability	207,865	214,350
Convertible debenture	339,069	337,882
	<u>8,055,046</u>	<u>8,127,095</u>
<b>Total liabilities</b>	<u>9,559,848</u>	<u>9,557,695</u>
<b>Shareholders' Deficiency</b>		
Capital Stock	8,585,808	8,585,808
Contributed surplus	372,505	372,479
Accumulated other comprehensive loss	(189,967)	(134,400)
Deficit	(9,257,014)	(9,397,667)
	<u>(488,668)</u>	<u>(573,780)</u>
<b>Total liabilities and shareholders' deficiency</b>	<u>9,071,180</u>	<u>8,983,915</u>
<b>Commitments and contingency</b> (note 12)		

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

## RediShred Capital Corp.

### Consolidated Statements of Comprehensive Loss

For the three months ended March 31, 2014 and 2013

(expressed in Canadian dollars)

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Revenue (note 9)	1,485,580	919,283
Corporate operating locations expenses (note 10)	(809,436)	(615,751)
Selling, general and administrative expenses (note 11)	(340,851)	(376,334)
	<hr/>	<hr/>
<b>Income (loss) before interest, income taxes and other items</b>	335,293	(72,802)
Gain on sale of assets	–	3,797
Interest expense	(210,314)	(166,426)
Interest income	2,149	2,645
	<hr/>	<hr/>
<b>Income (loss) before income taxes</b>	127,128	(232,786)
Income tax recovery	13,525	12,369
	<hr/>	<hr/>
<b>Net income (loss) for the period</b>	140,653	(220,417)
<b>Other comprehensive loss, net of tax</b>		
Foreign currency translation loss	(55,567)	(34,576)
	<hr/>	<hr/>
<b>Comprehensive income (loss) for the period</b>	85,086	(254,993)
	<hr/>	<hr/>
<b>Net income (loss) per share</b>		
Basic and diluted	0.00	(0.01)
	<hr/>	<hr/>
<b>Weighted average number of commons shares outstanding – basic and diluted</b>	28,884,658	28,884,658
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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, 2014 and 2013

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 8)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' (deficiency) \$
<b>Balance – January 1, 2013</b>	8,585,808	367,957	(71,561)	(9,357,200)	(474,996)
Net loss for the period	–	–	–	(40,467)	(40,467)
Other comprehensive loss					
Foreign currency translation loss	–	–	(62,839)	–	(62,839)
Comprehensive loss for the period	–	–	–	–	(103,306)
Stock-based compensation (note 8)	–	4,522	–	–	4,522
<b>Balance – December 31, 2013</b>	<b>8,585,808</b>	<b>372,479</b>	<b>(134,400)</b>	<b>(9,397,667)</b>	<b>(573,780)</b>
Net income for the period	–	–	–	140,653	140,653
Other comprehensive loss					
Foreign currency translation loss	–	–	(55,567)	–	(55,567)
Comprehensive income for the period	–	–	–	–	85,086
Stock-based compensation (note 8)	–	26	–	–	26
<b>Balance – March 31, 2014</b>	<b>8,585,808</b>	<b>372,505</b>	<b>(189,967)</b>	<b>(9,257,014)</b>	<b>(488,668)</b>

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, 2014 and 2013

(expressed in Canadian dollars)

<b>Cash provided by (used in)</b>	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net income (loss) for the period	140,653	(220,417)
Items not affecting cash		
Amortization of equipment and intangible assets	306,647	236,100
Stock-based compensation	26	65
Unrealized foreign currency gain	(258,268)	(134,260)
Income tax recovery	(13,525)	(12,369)
	<u>175,533</u>	<u>(130,881)</u>
Net change in non-cash working capital balances		
(Increase) decrease in trade receivables	(94,006)	33,787
(Increase) in prepaid expenses	(18,258)	(40,057)
Decrease in notes receivable from franchisees	6,076	2,466
(Decrease) in deferred revenue	(57,966)	–
Increase in accounts payable and accrued liabilities	<u>111,840</u>	<u>197,184</u>
Net cash from operations	123,219	62,499
<b>Financing activities</b>		
Repayment of long-term debt	(91,070)	(32,874)
Repayment of notes payable	(33,396)	(1,805)
	<u>(124,466)</u>	<u>(34,679)</u>
<b>Investing activities</b>		
Cash held by advertising fund	(2,986)	(21,659)
Purchase of capital assets	(7,664)	(19,381)
	<u>(10,650)</u>	<u>(41,040)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>11,817</u>	<u>3,765</u>
<b>Net change in cash for the period</b>	(79)	(9,455)
<b>Cash – Beginning of period</b>	<u>348,999</u>	<u>532,040</u>
<b>Cash – End of period</b>	<u>348,920</u>	<u>522,585</u>

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2014

(expressed in Canadian dollars)

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### 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 (with the exception of Canada). 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 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, 2013, 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, 2014. 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, 2013 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, 2014 were authorized for issue in accordance with a resolution of the Directors on May 27, 2014.

### 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 percentage of each location’s revenue. In accordance with *IAS 18 – Revenue*, the revenue, expenses and cash flows of the Ad Fund are not included in the Company’s Statements of Comprehensive Loss 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, 2014, the cash attributable to the Ad Fund amounted to \$66,361 (2013 - \$63,375).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(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, 2013	126,199	59,485	154,563	423,992	922,918	92,901	52,710	1,832,768
Additions	1,994	3,411	19,734	279,995	642,292	–	–	947,426
Acquisitions	–	3,172	74,389	154,545	381,211	–	5,152	618,469
Sale of assets	–	–	(1,477)	(142,626)	(304,969)	(95,741)	(16,938)	(561,751)
Foreign exchange	4,063	590	12,841	35,895	128,079	2,840	20,659	204,967
As at December 31, 2013	132,256	66,658	260,050	751,801	1,769,531	–	61,583	3,041,879
Additions	1,742	–	19,092	–	3,990	–	–	24,824
Foreign exchange	1,843	–	11,696	31,500	74,311	–	2,428	121,778
As at March 31, 2014	135,841	66,658	290,838	783,301	1,847,832	–	64,011	3,188,481

  

Accumulated depreciation	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2013	96,061	53,473	39,147	109,059	233,196	23,183	11,254	565,373
Depreciation	10,119	4,929	39,883	75,768	172,887	2,535	12,289	318,410
Sale of assets	–	–	–	(28,886)	(58,487)	(26,778)	(6,676)	(120,827)
Foreign exchange	1,731	177	3,967	2,619	56,709	1,060	17,577	83,840
As at December 31, 2013	107,911	58,579	82,997	158,560	404,305	–	34,444	846,796
Depreciation	1,788	1,253	16,757	22,113	53,626	–	2,112	97,649
Sale of assets	–	–	1,364	–	–	–	–	1,364
Foreign exchange	–	1,478	1,560	10,038	18,536	–	1,364	32,976
As at March 31, 2014	109,699	61,310	102,678	190,711	476,467	–	37,920	978,785

  

Net book value	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at December 31, 2013	24,345	8,079	177,053	593,241	1,365,226	–	27,139	2,195,083
As at March 31, 2014	26,142	5,348	188,160	592,590	1,371,365	–	26,091	2,209,696

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, 2014 and December 31, 2013. Depreciation related to the corporate stores is included in the statement of comprehensive loss in “corporate operating expenses.” Depreciation related to the franchising and licensing business is included in the statement of comprehensive loss in “selling, general & administrative expenses.”



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 4 Equipment (continued)

The Company has one shredding vehicle held under a finance lease arrangement. As of March 31, 2014, the net carrying amount of the related shredding vehicle, included as part of equipment is \$145,463. The finance lease liability (refer to note 7) is secured by the related asset held under the finance lease. Future minimum finance lease payments at March 31 were as follows:

<b>March 31, 2014</b>	<b>Minimum lease payments due</b>		<b>Total</b>
	<b>Within 1 year \$</b>	<b>1 – 5 years \$</b>	
Lease payments	30,459	153,337	183,796
Finance charges	(10,860)	(27,473)	(38,333)
Net present values	19,599	125,864	145,463

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

### 5 Intangible assets

Cost	Franchise	Proshred	Trademarks and intellectual	Re-acquired	Customer	Total
	agreements	system	property	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2013	2,365,361	978,000	1,672,500	845,666	1,029,722	6,891,249
Acquisitions	–	–	–	100,969	762,422	863,391
Removal of original franchise agreements	(173,321)	–	–	–	–	(173,321)
Foreign exchange	193,492	–	–	61,524	94,081	349,097
As at December 31, 2013	2,385,532	978,000	1,672,500	1,008,159	1,886,225	7,930,416
Foreign exchange	102,269	–	–	39,861	76,037	218,167
As at March 31, 2014	2,487,801	978,000	1,672,500	1,048,020	1,962,262	8,148,583

  

Accumulated amortization	Franchise	Proshred	Trademarks and intellectual	Re-acquired	Customer	Total
	agreements	system	property	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2013	1,424,251	562,681	1,088,452	343,235	130,388	3,549,007
Amortization	171,143	80,741	113,042	155,641	136,248	656,815
Reversal of previous impairment	(132,382)	(72,931)	(225,867)	–	–	(431,180)
Removal of original franchise agreements	(73,812)	–	–	–	–	(73,812)
Foreign exchange	128,107	–	–	28,731	13,501	170,339
As at December 31, 2013	1,517,307	570,491	975,627	527,607	280,137	3,871,169
Amortization	48,876	24,450	41,811	40,844	48,895	204,876
Foreign exchange	75,096	–	–	20,918	11,058	107,072
As at March 31, 2014	1,641,279	594,941	1,017,438	589,369	340,090	4,183,117

  

Net book value						
	Franchise	Proshred	Trademarks and intellectual	Re-acquired	Customer	Total
	agreements	system	property	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$
As at December 31, 2013	868,225	407,509	696,873	480,552	1,606,088	4,059,247
As at March 31, 2014	846,522	383,059	655,062	458,651	1,622,172	3,965,466

There were no additions to intangible assets during the three months ended March 31, 2014. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2014 and December 31, 2013. Amortization of reacquired franchise rights and customer relationships for the period is included in the statement of comprehensive loss in “corporate operating expenses” and amortization of the remaining intangible assets is included in the statement of comprehensive loss in “selling, general and administrative expenses.” 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

March 31, 2013

(expressed in Canadian dollars)

### 6 Goodwill

The following table presents goodwill for the three months ended March 31, 2014 and for the year ended December 31, 2013:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
	\$	\$
<b>Opening balance</b>	1,455,467	1,361,705
Acquisitions	–	–
Impairment of goodwill	–	–
Foreign currency translation	57,339	93,762
	<u>1,512,806</u>	<u>1,455,467</u>
<b>Closing balance</b>	<u>1,512,806</u>	<u>1,455,467</u>

### 7 Long-term debt

As at March 31, 2014 and December 31, 2013 long-term debt is comprised of:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
	\$	\$
Line of credit (i)	5,963,781	5,982,184
Less: deferred financing charges	(1,842)	(22,086)
Line of credit net of deferred financing charges	5,961,939	5,960,098
Truck loans (ii)	728,159	755,656
Finance lease liability (iii)	145,463	144,434
Term loans (iv)	1,275,617	1,264,227
Total long-term debt	8,111,178	8,124,415
Less: current portion	(672,802)	(648,004)
<b>Total</b>	<u>7,438,376</u>	<u>7,476,411</u>

#### (i) Line of Credit

The line of credit was entered into on November 27, 2009 with a related party entity (see note 16) 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 terms of the agreement remained unchanged upon extending the facility's term.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 7 Long-term debt (continued)

#### *(ii) Truck loans*

On November 11, 2011, the Company entered into a loan and security agreement in the amount of US\$240,000, repayable with monthly blended payments of principal and interest of US\$5,690 maturing October 3, 2015. The loan bears interest at 8.14% per annum and is secured by two shredding vehicles with a carrying value of \$271,222 at March 31, 2014. The value of the loan on March 31, 2014 is \$111,768.

On July 5, 2012, the Company entered into a loan and security agreement in the amount of US\$121,128, repayable with monthly blended payments of principal and interest of US\$3,718 maturing July 5, 2015. The loan bears interest at 6.502% per annum and is secured by one shredding vehicle with a carrying value of \$90,183 at March 31, 2014. The value of the loan on March 31, 2014 is \$62,781.

On August 3, 2012, the Company entered into a loan and security agreement in the amount of US\$125,556, repayable with monthly blended payments of principal and interest of US\$2,545 maturing August 13, 2017. The loan bears interest at 8% per annum and is secured by one shredding vehicle with a carrying value of \$174,278 at March 31, 2014. The value of the loan on March 31, 2014 is \$91,065.

On January 3, 2013, the Company traded in one of its shredding vehicles for a larger shredding vehicle. The related loan and security agreement entered into on August 8, 2012, in the amount of US\$121,000, was replaced with a new loan and security agreement. The new loan and security agreement for US\$119,906 is repayable with monthly blended payments of principal and interest of US\$2,382 maturing January 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of \$234,192 at March 31, 2014. The value of the loan on March 31, 2014 is \$105,745.

On January 31, 2013, the Company entered into a loan and security agreement in the amount of US\$171,516, repayable with monthly blended payments of principal and interest of US\$3,407 maturing February 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of \$254,194 at March 31, 2014. The value of the loan on March 31, 2014 is \$154,098.

On October 24, 2013, the Company entered into a loan and security agreement in the amount of US\$187,950, repayable with monthly blended payments of principal and interest of US\$3,731 maturing October 24, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of \$197,728 at March 31, 2014. The value of the loan on March 31, 2014 is \$193,092.

#### *iii) Finance lease liability*

On November 15, 2013, the Company entered into a finance lease in the amount of US\$137,035, repayable with monthly blended payments of principal and interest of US\$2,296 with a final payment of \$37,680, maturing December 20, 2018. The loan bears interest at 7.95% per annum and is secured by one shredding vehicle with a carrying value of \$198,152 at March 31, 2014. The balance of the loan on March 31, 2014 is \$145,463.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 7 Long-term debt (continued)

#### iv) *Term loans*

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

- (a) A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (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;
- (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 bears interest at 9% per annum;
- (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 bears interest at 9% per annum; and
- (e) A 4 year loan and security agreement in the amount of US\$500,000, repayable with monthly blended payments of principal and interest of US\$12,681 maturing August 5, 2017. The loan bears interest at 10% per annum and is secured by four shredding vehicles and two non-shredding vehicles with a carrying value of US\$465,978 at March 31, 2014. The value of the loan on March 31, 2014 is US\$438,887.

### 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, 2014 and the year ended December 31, 2013, 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>Warrants</u>		<u>Total</u>
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>	
<b>Balance, December 31, 2013 and March 31, 2014</b>	<b>28,884,658</b>	<b>8,297,602</b>	<b>4,000,000</b>	<b>288,206</b>	<b>8,585,808</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 8 Capital stock (continued)

#### c) Weighted average common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2014, was 28,884,658 (December 31, 2013 - 28,884,658).

#### d) Stock options

At March 31, 2014, the Company has 1,467,500 options outstanding (December 31, 2013 – 1,462,500) and a weighted average exercise price of \$0.18 (December 31, 2013 - \$0.18). During the three months ended March 31, 2014, there were no stock options that expired (for the three months ended March 31, 2013 – 267,500). There have been 5,000 stock options granted during the three months ended March 31, 2014 (for the three months ended March 31, 2013 – nil). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$26 (for the three months ended March 31, 2013 – \$65).

#### e) Warrants

The Company issued two tranches of warrants in 2009. The first tranche was issued in connection with the private placement and the second related to the line of credit obtained. In connection with the line of credit, 1,000,000 warrants were issued on April 28, 2010 when the line of credit was first drawn upon in accordance with the line of credit agreement. These warrants were recorded in the consolidated financial statements in 2009 as performance by the counterparty was complete at that date. The fair value of these warrants has been recorded as deferred financing charges and is being amortized into income over the term of the facility and is also subject to a two-year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the consolidated statements of cash flows. Tranches 1 and 2 of warrants expire on November 27, 2014 and December 23, 2014, respectively.

### 9 Revenue

The revenue earned by the Company for the three months ended March 31, 2014 and 2013 is broken down as follows:

	<u>2014</u>	<u>2013</u>
	\$	\$
Royalties	258,058	232,349
Franchise fees	65,563	–
License fees	4,225	1,165
Shredding services	952,301	547,581
Sale of paper products	205,433	127,035
Rental revenue	–	11,153
<b>Total revenue</b>	<u>1,485,580</u>	<u>919,283</u>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

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(expressed in Canadian dollars)

### 10 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three months ended March 31, 2014 and 2013 are broken down as follows:

	<u>2014</u>	<u>2013</u>
	\$	\$
Shredding vehicle and related expenses	158,997	154,426
Employee wages expense	286,079	217,220
Employee benefit expense	66,241	40,459
Office and administration expense	129,277	82,587
Depreciation – equipment	94,746	63,776
Amortization – intangible assets	74,095	57,283
<b>Total corporate operating expenses</b>	<u>809,435</u>	<u>615,751</u>

### 11 Selling, general and administrative expenses by nature

The selling, general and administrative expenses incurred by the Company for the three months ended March 31, 2014 and 2013 are broken down as follows:

	<u>2014</u>	<u>2013</u>
	\$	\$
Employee wages expense	186,628	186,242
Employee benefits expense	19,262	19,617
Share-based compensation	26	65
Professional fees	44,760	30,014
Technology	55,331	49,724
Rent and office expense	27,875	24,050
Selling and development	47,551	25,264
Amortization of deferred financing charges	1,842	5,522
Amortization – intangible assets	135,964	109,517
Foreign exchange gain	(205,279)	(118,475)
Other	26,891	44,794
<b>Total selling, general and administrative expenses</b>	<u>340,851</u>	<u>376,334</u>

#### Compensation of key management

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

	<u>2014</u>	<u>2013</u>
	\$	\$
Wages and benefits	139,064	154,070
Share-based compensation	26	65
<b>Total</b>	<u>139,090</u>	<u>154,135</u>

Compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Vice President of Operations and former President.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 12 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 Syracuse, which expires on August 31, 2015, Milwaukee, which expires on August 31, 2017, New York City, which expires on September 30, 2015 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, 2014, the Company incurred \$52,910 (three months ended March 31, 2013 - \$64,801) 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	185,809
Between 1 and 5 years	<u>436,218</u>
<b>Total</b>	<b><u>622,027</u></b>

#### Contingency

On February 14, 2014, all claims against the Company were dismissed. During the second quarter of 2010, four franchisees filed a complaint with the United States District Court, South District of New York. As of December 31, 2013, three franchisees have permanently withdrawn from the legal complaint and the remaining litigant's claim was dismissed by the United States District Court on September 4, 2013. In October 2013, the franchisee issued an appeal to the Federal Courts. On February 14, 2014, the franchisee dismissed the appeal to the Federal Courts.

### 13 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 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, 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. 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

March 31, 2013

(expressed in Canadian dollars)

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### 13 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 March 31, 2014, 6 franchisees accounted for 70% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2013 - 6 franchises accounted for 79%). For the three months ended March 31, 2014, 3 franchisees accounted for 36% of the Company's revenues related to franchising and licensing (for the three months ended March 31, 2013 - 3 franchisees accounted for 29%).

#### *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, 2014 and December 31, 2013, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2014 and for the three months ended March 31, 2013, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2014, 2% of accounts receivable in this category was over 90 days old (December 31, 2013 – 2%). The Company does not have any reason to believe it will not collect all remaining balances.

#### Foreign exchange risk

Since the Company operates internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar (CAD) and the US dollar (USD) exchange rates could have a potentially significant impact on the Company's results of operations. If there were a foreign exchange rate variation of -5% (depreciation of the USD) or a +5% (appreciation of the USD) against the CAD, from an average rate of USD\$1.00 = CAD\$1.1019, the total impact to net income would be a decrease/increase of approximately \$20,000.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

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(expressed in Canadian dollars)

### 13 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 \$9.2 million at March 31, 2014. 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 \$1,504,802 at March 31, 2014 (December 31, 2013 - \$1,430,600), are due to be settled within one year from the date of the Statement of Financial Position. At March 31, 2014, the Company has cash of \$348,920.

<b>Principal</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>2 – 5 years</b>	<b>Over 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	718,348	–	–	–
Notes payable	27,010	100,327	50,522	–
Contingent consideration	5,528	–	–	–
Convertible debentures	–	–	339,074	–
Long-term debt	102,251	570,083	7,438,843	–

<b>Interest</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>2 – 5 years</b>	<b>Over 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Notes payable	2,973	7,070	811	–
Convertible debentures	–	28,125	84,375	–
Long-term debt	329,385	426,810	2,164,204	–

#### Liquidity risk

<b>Total principal and interest</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>2 – 5 years</b>	<b>Over 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	718,348	–	–	–
Notes payable	29,983	107,397	51,333	–
Contingent consideration	5,528	–	–	–
Convertible debentures	–	28,125	423,449	–
Long-term debt	431,636	996,893	9,603,047	–

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 13 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, trade 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, 2014, amounted to \$308,668 (December 31, 2013 - \$314,744) with fair value estimated to amount to \$291,663 (December 31, 2013 - \$306,286), respectively.

### 14 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.

### 15 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).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

### 15 Segment reporting (continued)

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

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate Overhead</b>	<b>Total</b>
	<b>March 31, 2014</b>	<b>March 31, 2014</b>	<b>March 31, 2014</b>	<b>March 31, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	33,078	155,161	160,681	348,920
Cash attributable to the Ad Fund	66,361	–	–	66,361
Trade receivables	84,923	440,158	17,906	542,987
Prepaid expenses	33,551	46,970	35,755	116,276
Notes receivable from franchisees	81,636	–	–	81,636
<b>Total current assets</b>	<b>299,549</b>	<b>642,289</b>	<b>214,342</b>	<b>1,156,180</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	227,032	–	–	227,032
Equipment	–	2,209,696	–	2,209,696
Intangible assets	846,522	2,080,818	1,038,126	3,965,466
Goodwill	–	1,512,806	–	1,512,806
<b>Total assets</b>	<b>1,373,103</b>	<b>6,445,609</b>	<b>1,252,468</b>	<b>9,071,180</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	144,751	361,797	211,800	718,348
Current portion of notes payable	7,759	100,365	–	108,124
Current portion of long-term debt	–	672,802	–	672,802
Contingent consideration	–	5,528	–	5,528
<b>Total current liabilities</b>	<b>152,510</b>	<b>1,140,492</b>	<b>211,800</b>	<b>1,504,802</b>
<b>Non-current liabilities</b>				
Long-term debt	–	7,438,376	–	7,438,376
Current portion of notes payable	–	69,736	–	69,736
Convertible debenture	–	–	339,069	339,069
Deferred tax liability	207,865	–	–	207,865
<b>Total liabilities</b>	<b>360,375</b>	<b>8,648,604</b>	<b>550,869</b>	<b>9,559,848</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

### 15 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	December 31, 2013	December 31, 2013	December 31, 2013	December 31, 2013
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>	100,857	140,902	107,239	348,998
Cash				
Cash attributable to the Ad Fund	63,375	—	—	63,375
Trade receivables	74,980	357,917	16,085	448,982
Prepaid expenses	27,128	46,482	24,408	98,018
Notes receivable from franchisees	148,633	—	—	148,633
<b>Total current assets</b>	<b>414,973</b>	<b>545,301</b>	<b>147,732</b>	<b>1,108,006</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	166,112	—	—	166,112
Equipment	—	2,195,083	—	2,195,083
Intangible assets	866,422	2,088,437	1,104,388	4,059,247
Goodwill	—	1,455,467	—	1,455,467
<b>Total assets</b>	<b>1,447,507</b>	<b>6,284,288</b>	<b>1,252,120</b>	<b>8,983,915</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	119,022	235,562	251,924	606,508
Current portion of notes payable	9,271	103,533	—	112,804
Current portion of long-term debt	—	648,004	—	648,004
Contingent consideration	—	5,318	—	5,318
Deferred revenue	57,966	—	—	57,966
<b>Total current liabilities</b>	<b>186,259</b>	<b>992,417</b>	<b>251,924</b>	<b>1,430,600</b>
<b>Non-current liabilities</b>				
Long-term debt	—	7,476,411	—	7,476,411
Long- portion of notes payable	—	98,452	—	98,452
Convertible debenture	—	—	337,882	337,882
Deferred tax liability	214,350	—	—	214,350
<b>Total liabilities</b>	<b>400,609</b>	<b>8,567,280</b>	<b>589,806</b>	<b>9,557,695</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 15 Segment reporting (continued)

#### Geographic information

	March 31, 2014	December 31, 2013
<b>Canada</b>	\$	\$
Equipment	–	–
Intangible assets	1,038,124	1,104,388
<b>United States</b>		
Notes receivable from franchisees	308,668	314,745
Equipment	2,209,696	2,195,083
Intangible assets	2,927,342	2,954,859
Goodwill	1,512,806	1,455,467
<b>Total</b>		
Notes receivable from franchisees	308,668	314,745
Equipment	2,209,696	2,195,083
Intangible assets	3,965,466	4,059,247
Goodwill	1,512,806	1,455,467

#### 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, 2014	March 31, 2013
	\$	\$
<b>United States</b>		
Royalties	258,058	225,615
Franchise fees	65,563	–
Shredding services	952,301	547,581
Sale of paper products	205,433	127,035
<b>Middle East</b>		
License fees	4,225	1,165

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

### 15 Segment reporting (continued)

#### Net income (loss) by operating segment

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

#### For the three months ended March 31, 2014

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	327,847	1,157,733	–	1,485,580
Direct costs	–	(640,595)	–	(640,595)
Corporate overhead	(213,250)	(117,075)	(77,999)	(408,324)
Depreciation and amortization	(137,806)	(168,841)	–	(306,647)
Foreign exchange gain	–	–	205,279	205,279
Interest expense	–	(202,092)	(8,222)	(210,314)
Interest income	2,149	–	–	2,149
Income tax recovery	13,525	–	–	13,525
Net income (loss)	(7,535)	29,130	119,058	140,653

#### For the three months ended March 31, 2013

	<b>Franchising and licensing</b>	<b>Corporate locations</b>	<b>Corporate overhead</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	233,513	685,770	–	919,283
Direct costs	–	(495,027)	–	(495,027)
Corporate overhead	(121,967)	(97,421)	(160,209)	(379,597)
Depreciation and amortization	(115,039)	(121,061)	–	(236,100)
Foreign exchange gain	–	–	118,639	118,639
Interest expense	–	(158,205)	(8,221)	(166,426)
Interest income	2,645	–	–	2,645
Gain on sale of assets	–	3,797	–	3,797
Income tax recovery	12,369	–	–	12,369
Net income (loss)	11,521	(182,147)	(49,791)	(220,417)

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2013

(expressed in Canadian dollars)

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### 16 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, 2014, is \$nil (March 31, 2013 - \$1,945) due from this franchise. During the three months ended March 31, 2014, the Company earned royalty and service fees amounting to \$25,078 (2013 - \$18,237) 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.

Included in selling, general and administrative expenses for the three months ended March 31, 2014 are insurance premium amounts of \$4,592 (March 31, 2013 - \$4,287) 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 certain members of the Company's Board of Directors and their affiliates:

- (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;
- (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;
- (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 bears interest at 9% per annum;
- (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 bears interest at 9% per annum; and
- (e) A 4 year loan and security agreement in the amount of US\$500,000, repayable with monthly blended payments of principal and interest of US\$12,681 maturing August 5, 2017. The loan bears interest at 10% per annum and is secured by four shredding vehicles and two non-shredding vehicles with a carrying value of US\$465,978 at March 31, 2014. The value of the loan on March 31, 2014 is US\$438,887.