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## **Overview of the Structure of the MD&A**

The following management's discussion and analysis ("MD&A") for Redishred Capital Corp. (the "Company" or "Redishred") has been prepared by management and focuses on key statistics from the consolidated financial report and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the year ended December 31, 2013 and 2012. Additional information on Redishred, including these documents and the Company's 2013 Annual Report are available on SEDAR at [www.sedar.com](http://www.sedar.com). The discussions in this MD&A are based on information available as at April 29, 2014.

## **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Often, but not always, forward-looking reports can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking reports involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In particular, certain reports in this document discuss Redishred's anticipated outlook of future events. These reports include, but are not limited to:

- (i) the Company's ability to achieve certain levels of cash flow and earnings before interest, taxes, depreciation and amortization ("EBITDA") as well as meet its financial obligations as they come due over the next twelve months, which may be impacted by:
  - a. the number of new franchises awarded,
  - b. the size of the franchise territories awarded,
  - c. the growth of the system sales achieved by existing and new locations,
  - d. the economic circumstances in certain regions of the United States,
  - e. the number and size of acquisitions,
  - f. the growth of sales achieved in corporate locations,
  - g. the level of corporate overhead,
  - h. the outcome of current litigation,
- (ii) franchise development or the awarding of franchises, which is subject to the identification and recruitment of candidates with the financial capacity and managerial capability to own and operate a Proshred franchise;
- (iii) acquisition activity may be impacted by the level of financing that can be obtained, the identification of appropriate assets and agreement of suitable terms;
- (iv) anticipated system sales, royalty revenue and corporate store revenue, which may be impacted by industry growth levels which to date have been driven by favourable legislation and favourable media coverage on the impacts of identity theft;
- (v) recycling revenues may be impacted by commodity paper prices which will vary with market conditions both in the United States and Internationally;
- (vi) the commencement of new franchise operations which may be delayed by the inability of the franchisee to comply with the franchise agreement terms and conditions post execution;

- (vii) the anticipated corporate results which may be impacted by the ability of the Company to attain the anticipated cost savings and by the performance of the local economies; and
- (viii) the Company's ability to achieve positive incremental cash flow and lead to positive cash flows for the Company as a result of its acquisitions, which may be impacted by growth of sales and level of costs incurred by such acquisitions.

These forward-looking reports should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking reports will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

### **Non-IFRS Measures**

There are measures included in this MD&A that do not have a standardized meaning under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- System sales are revenues generated by franchisees, licensees and corporately operated locations. The system sales generated by franchisees and licensees drive the Company's royalties. The system sales generated by corporate locations are included in the Company's revenues.
- Same store system sales results, royalty fees and corporate operational results are indicators of performance of franchisees, licensees and corporately operated locations that have been in the system for equivalent periods in 2013 and 2012.
- Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, impairment or reversal of impairment and gains or losses on acquisitions. Adjusted EBITDA is a performance measure used to assess the corporate locations' performance.
- Corporate operating income (loss) is the income (loss) generated by corporately operated locations. The operating income (loss) generated is inclusive of depreciation on tangible equipment, primarily trucks and containers. It does not include amortization related to intangibles assets or allocations for corporate overhead. The corporate operating income (loss) also includes the interest related to the Company's line of credit utilized to purchase the corporately operated locations.
- Operating income (loss) is defined as revenues less operating costs, interest expense, depreciation and amortization related to tangible assets. Depreciation and amortization for intangible assets has not been included in this calculation.

### **Basis of Presentation**

All financial information reported in this MD&A is presented under IFRS as Generally Accepted Accounting Principles ("GAAP"). The Company's presentation currency is the Canadian dollar. The functional currency of the Company's foreign subsidiaries is the U.S. dollar, as it is the currency of the primary economic environment in which it operates.

## **Overview of Redishred Capital Corp.**

Redishred Capital Corp., based in Mississauga, Ontario, Canada operates the Proshred franchising business (defined as the business of granting and managing franchises in the United States and by way of a master license arrangement in the Middle East) as well as corporate shredding businesses directly. The Company's plan is to grow its business by way of both franchising and the acquisition and operation of document destruction businesses that generate stable and recurring cash flow through a scheduled client base, continuous paper recycling, and concurrent unscheduled shredding service.

As of December 31, 2013, there were 26 operating Proshred locations in the United States comprised of 113.8 territories. A territory in the United States is defined as a geographic area with 7,000 businesses having 10 or more employees. A franchise is defined as the right, granted by the Company, to operate a Proshred business in a certain geographic area(s).

On June 24, 2013, the Company entered into an agreement with a new franchisee to operate a Proshred shredding business in San Francisco, California. The franchise comprises 6.3 territories and commenced operations in the fourth quarter of 2013. On July 10, 2013, the Company entered into an agreement with a new franchisee to operate a Proshred shredding business in Seattle, Washington. The Seattle franchise comprises 3.4 territories and commenced operations in the fourth quarter of 2013.

In December 2013, the Company entered into an agreement with a new franchisee to operate a Proshred shredding business in Southern New Jersey. The Company recognized the related franchise fee revenue in January of 2014. The Company expects its new franchisee to commence operations in the second quarter of 2014.

As of December 31, 2013, the Company operates the Syracuse, Albany, Milwaukee, New York City and Charlotte locations directly. On July 31, 2013, the Company acquired the Proshred Charlotte business from an existing franchisee and has been operating the business directly since July 31, 2013. Until December 31, 2013 the Miami business was jointly operated by Redishred and one of the Company's franchise locations (refer to 'Transactions with Related Parties' and 'Miami Operations'). The Company determined that the Miami location can be operated from its newly acquired Charlotte location and terminated the joint arrangement on December 31, 2013. The Company commenced operations of the Miami location directly on January 1, 2014.

As of December 31, 2013, the Company also has one international master license to operate in the Middle East<sup>1</sup>. There are 5 Proshred locations in the Middle East in operation, including Doha, Qatar, Dubai, UAE, Abu Dhabi, UAE, Riyadh, Saudi Arabia and Jeddah, Saudi Arabia.

<sup>1</sup> Middle East license includes Gulf Cooperation Council countries of Saudi Arabia, Kuwait, Bahrain, Qatar, The United Arab Emirates, the Sultanate of Oman and the Republic of Yemen, in addition to, the Eastern Mediterranean Levant Countries of Turkey, Syria, Lebanon, Palestine, Jordan, Iraq, and Egypt including the islands of Crete, Cyprus, Rhodes, Chios and Lesbos.

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The Company's location list is as follows:

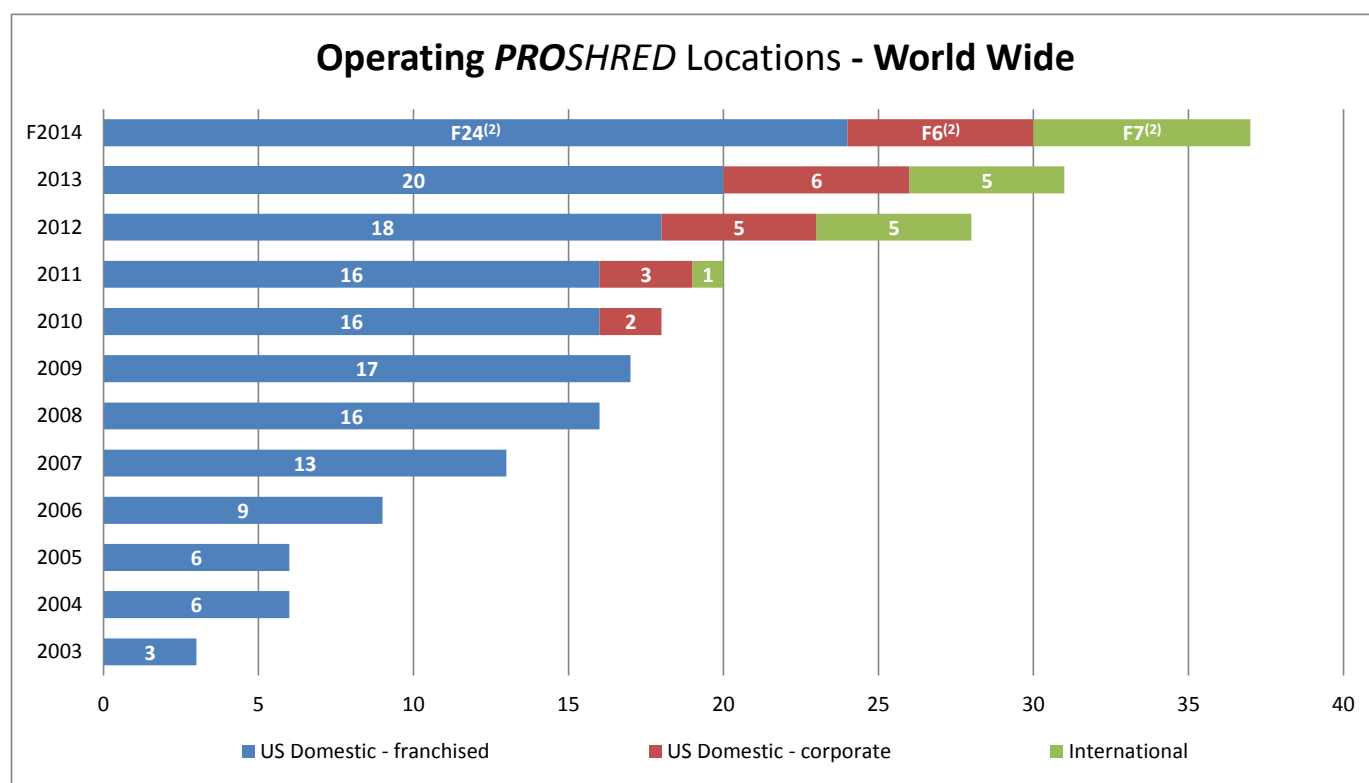
<b>No.</b>	<b>Franchise locations</b>	<b>Operating since</b>	<b>Territories</b>
1.	SPRINGFIELD, MA	June 2003	2.3
2.	TAMPA BAY, FL	March 2004	2.1
3.	DENVER, CO	August 2004	3.8
4.	PHILADELPHIA, PA	September 2006	5.0
5.	KANSAS CITY, MO	December 2006	4.0
6.	NEW HAVEN, CT	April 2007	3.6
7.	CHICAGO, IL (includes North and South Territories)	April 2007	7.2
8.	RALEIGH, NC	June 2007	4.7
9.	BALTIMORE, MD (includes Washington, DC)	November 2007	6.7
10.	N. VIRGINIA, VA	July 2008	3.8
11.	ORANGE COUNTY, CA	September 2009	3.0
12.	SAN DIEGO, CA	October 2010	2.9
13.	INDIANAPOLIS, IN	June 2011	2.6
14.	ATLANTA, GA	January 2012	6.3
15.	PHOENIX, AZ	January 2012	4.2
16.	DALLAS, TX	March 2012	6.3
17.	HOUSTON, TX	November 2012	5.7
18.	RICHMOND, VA	March 2013	3.2
19.	SAN FRANCISCO/SAN JOSE, CA	October 2013	6.3
20.	SEATTLE, WA	October 2013	3.4
<i>Franchised territories in operation</i>			<u>90.4</u>
<b>No.</b>	<b>Corporate locations</b>	<b>Operating since</b>	<b>Territories</b>
21.	SYRACUSE, NY	March 2004 <sup>(1)</sup>	2.5
22.	ALBANY, NY	April 2003 <sup>(1)</sup>	1.2
23.	MILWAUKEE, WI	August 2003 <sup>(1)</sup>	2.7
24.	NEW YORK CITY, NY (includes Long Island, NY)	January 2008 <sup>(1)</sup>	11.3
25.	MIAMI, FL	June 2008 <sup>(1)</sup>	5.7
26.	CHARLOTTE, NC	April 2006 <sup>(1)</sup>	3.3
<i>Corporate territories in operation</i>			<u>23.4</u>
<b>Grand Total</b>			<b><u>113.8</u></b>
<b>No.</b>	<b>Pending franchise locations</b>	<b>Expected Operation</b>	<b>Territories</b>
1.	SOUTHERN NEW JERSEY	April, 2014	3.6

(1) Syracuse has been corporately operated since May 1, 2010; Albany has been corporately operated since July 1, 2010; Milwaukee has been corporately operated since January 1, 2011 and New York City has been corporately operated since January 1, 2012. The Miami, FL business has been operated by the Company's franchise location in Tampa Bay, FL, since July 13, 2012. The Charlotte, NC location has been corporately operated since July 31, 2013.

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<b>No.</b>	<b>International locations</b>	<b>Operating since</b>	<b>Territories</b>
1.	DOHA, QATAR	September 2011	-
2.	DUBAI, UAE	January 2012	-
3.	ABU DHABI, UAE	June 2012	-
4.	RIYADH, SAUDI ARABIA	December 2012	-
5.	JEDDAH, SAUDI ARABIA	December 2012	-

**Worldwide locations**



(1) The information prior to the March 17<sup>th</sup>, 2008 qualifying transaction was obtained from the predecessor Company.

(2) Management's forecast for the year ended December 31, 2014.

**Performance Compared to 2013 Goals and Objectives**

In the Company's 2012 Annual Report, management stated its 2013 goals and objectives. A review of the Company's performance in meeting these goals and objectives is included below:

2013 Goals and Objectives	Performance during the three and twelve months ended December 31, 2013	Comments
<p>Grow system sales from all locations by 10% to \$16.4M USD compared to 2012.</p>	<p>During the fourth quarter of 2013, system sales grew by 15% in comparison to the comparative 2012 period. Redishred's:</p> <ul style="list-style-type: none"> <li>• Scheduled (recurring) system sales grew by 19% (same store sales grew by 18%);</li> <li>• unscheduled system sales grew by 19% (same store sales grew by 12%);</li> <li>• recycling system sales decreased by 1% (same store sales decreased by 4%).</li> </ul> <p>During the twelve months ended December 31, 2013, system sales grew by 15%, in comparison to 2012, to a total of \$17.1M. Redishred's:</p> <ul style="list-style-type: none"> <li>• scheduled (recurring) system sales grew by 17% (same store sales grew by 16%);</li> <li>• unscheduled system sales grew by 22% (same store sales grew by 16%);</li> <li>• recycling system sales remained consistent with the prior year (same store sales decreased by 3%).</li> </ul>	<p><b>Redishred achieved its annual goal.</b></p>
<p>Achieve a minimum of \$800,000 in EBITDA from existing Corporate locations (Syracuse, Albany, Milwaukee and New York City).</p>	<p>For the twelve months ended December 31, 2013, Redishred earned \$1,017,221 in adjusted EBITDA from its Syracuse, Albany, Milwaukee and New York City locations.</p> <p>Corporate location adjusted EBITDA for the twelve months ended December 31, 2013 including acquisitions conducted this year was \$1,233,126.</p>	<p><b>Redishred achieved its annual goal.</b></p>
<p>Award at least four franchise locations.</p> <p><b><i>The Company revised its target to three franchise locations in the 3<sup>rd</sup> quarter of 2013.</i></b></p>	<p>During the 3<sup>rd</sup> quarter of 2013, Redishred awarded two new franchise locations in San Francisco/San Jose, California and Seattle, Washington.</p> <p>During the 4<sup>th</sup> quarter of 2013, Redishred awarded a new franchise location in Southern New Jersey.</p>	<p><b>Redishred achieved its revised annual goal.</b></p>

**Goals and Objectives for 2014**

Management has set new objectives for 2014 as follows:

1. Grow system sales from all locations by 8% over fiscal 2013 to a total of \$18.5 million USD.
2. Award at least four franchise locations.
3. Generate \$1.5M in earnings before interest, taxes, depreciation and amortization ("EBITDA") from current corporate locations, which includes Syracuse, Albany, Milwaukee, NYC, Charlotte and Miami.

<b>2014 Goals and Objectives</b>	<b>Strategy for Achieving Goals</b>
Grow system sales from all locations by 8% to \$18.5M USD compared to 2013.	<p>Provide sales support to all franchisees and corporate locations in their sales growth efforts. Sales support will include on-site field visits, lead generation programs and enhanced marketing tools.</p> <p>The Company has and will continue to invest in on-line marketing programs, such as enhanced SEO programs and the implementation of a mobile web site.</p> <p>Furthermore, the Company hired a dedicated Director of Sales in Q1 2014 to drive sales programs and sales activities.</p>
Award at least four franchise locations.	Continue to invest in franchise development marketing activities and develop stronger relationships with business brokers. In addition, leverage newly developed dedicated franchising web site ( <a href="http://www.proshredfranchise.com">www.proshredfranchise.com</a> ).
Achieve a minimum of \$1.5M in EBITDA from existing Corporate locations (Syracuse, Albany, Milwaukee, New York City, Charlotte and Miami).	Management will focus on two key areas to drive profitability, (1) increased sales and marketing activities in the local markets, and (2) continued focus on route optimization using GPS, routing technologies and handheld technologies.



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**Overall Performance**

**Selected Financial Data and Results of Operations**

The following table shows selected financial data for the 12 months ended December 31, 2013, 2012 and 2011.

<i>(in CDN except where noted)</i>	<u>2013</u>	<u>2012<sup>(1)</sup></u>	<u>2011</u>
	\$	\$	\$
<b>System sales and revenue data:</b>			
System sales (USD)	17,099,691	14,890,134	14,936,708
Franchise and license fees	270,811	304,478	433,396
Royalties and service fees	970,989	823,577	934,192
<b>Franchise and license related revenue</b>	<b>1,241,800</b>	<b>1,128,055</b>	<b>1,367,588</b>
<b>Corporate location revenue</b>	<b>3,427,283</b>	<b>2,952,505</b>	<b>2,011,795</b>
<b>Total Revenue</b>	<b>4,669,083</b>	<b>4,078,560</b>	<b>3,379,383</b>
<b>Corporate location data<sup>(1)</sup>:</b>			
Corporate location revenue	3,427,283	2,950,505	2,011,795
Corporate location operating costs	(2,194,157)	(2,330,170)	(1,230,143)
<b>Corporate location Adjusted EBITDA</b>	<b>1,233,126</b>	<b>620,335</b>	<b>781,652</b>
Depreciation – tangible assets	(318,410)	(247,006)	(130,536)
Interest expense	(678,542)	(595,146)	(286,915)
<b>Operating income (loss) from corporate locations</b>	<b>236,174</b>	<b>(221,817)</b>	<b>364,201</b>
On-going operating costs	(1,585,673)	(1,587,389)	(1,608,218)
One-time operating costs <sup>(2)</sup>	(84,213)	(231,498)	(599,355)
Broker fees	(85,121)	(68,089)	(121,612)
Impairment of note receivable	(14,453)	-	(103,320)
Depreciation – equipment	-	-	(3,014)
Interest expense	(33,556)	-	-
<b>Total operating costs</b>	<b>(1,803,016)</b>	<b>(1,886,976)</b>	<b>(2,435,519)</b>
<b>Operating loss</b>	<b>(325,042)</b>	<b>(980,738)</b>	<b>(703,730)</b>
<b>Operating loss – excluding one-time operating costs</b>	<b>(240,829)</b>	<b>(749,240)</b>	<b>(104,375)</b>
<b>Net loss</b>	<b>(40,467)</b>	<b>(2,802,536)</b>	<b>(455,083)</b>
<b>Net loss – excluding one-time items<sup>(3)</sup></b>	<b>(535,661)</b>	<b>(1,459,444)</b>	<b>(444,959)</b>
<b>Loss per share</b>	<b>(0.00)</b>	<b>(0.10)</b>	<b>(0.02)</b>

(1) The corporate location data includes the Miami business results.

(2) One-time operating costs incurred during 2011 and 2012 relate primarily to legal fees related to the defence of the past franchisee litigation against the Company. As of April 29, 2014, all claims against the Company were dismissed. One-time operating costs incurred during 2013 related to legal fees related to the defence of the past franchisee litigation, legal fees related to the Charlotte acquisition and additional audit fees.

(3) For the year ended December 31, 2013, "Net loss – excluding one-time costs" excludes a reversal of impairment of \$431,180, a gain related to the Charlotte acquisition of \$148,228 and one-time operating costs noted in footnote 2 above. For the year ended December 31, 2012, "Net loss – excluding one-time costs" excludes \$712,567 of the loss on settlement of the pre-existing relationships related to the NYC and Miami acquisitions, impairment of goodwill and intangible assets of \$545,008, the gain on re-acquired rights of \$138,439, the gain on sale of assets of \$7,540 and one-time operating costs noted in footnote 2 above.

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The Company operates the Proshred system, and derives revenues from franchise and other fees as well as royalty and service related fees. In addition to operating the Proshred franchise system, the Company operates five corporate locations in Syracuse, Albany, Milwaukee, New York City and Charlotte. The Miami business is currently jointly operated by Redishred and one of the Company's franchise locations. The Company determined that the Miami location can be operated from its newly acquired Charlotte location and has commenced operations directly as of January 1, 2014. These corporate locations generate shredding service revenue and recycling revenue as well as incur costs related to marketing and servicing of customers. The Company also incurs costs related to managing the Proshred system, including salaries and administration.

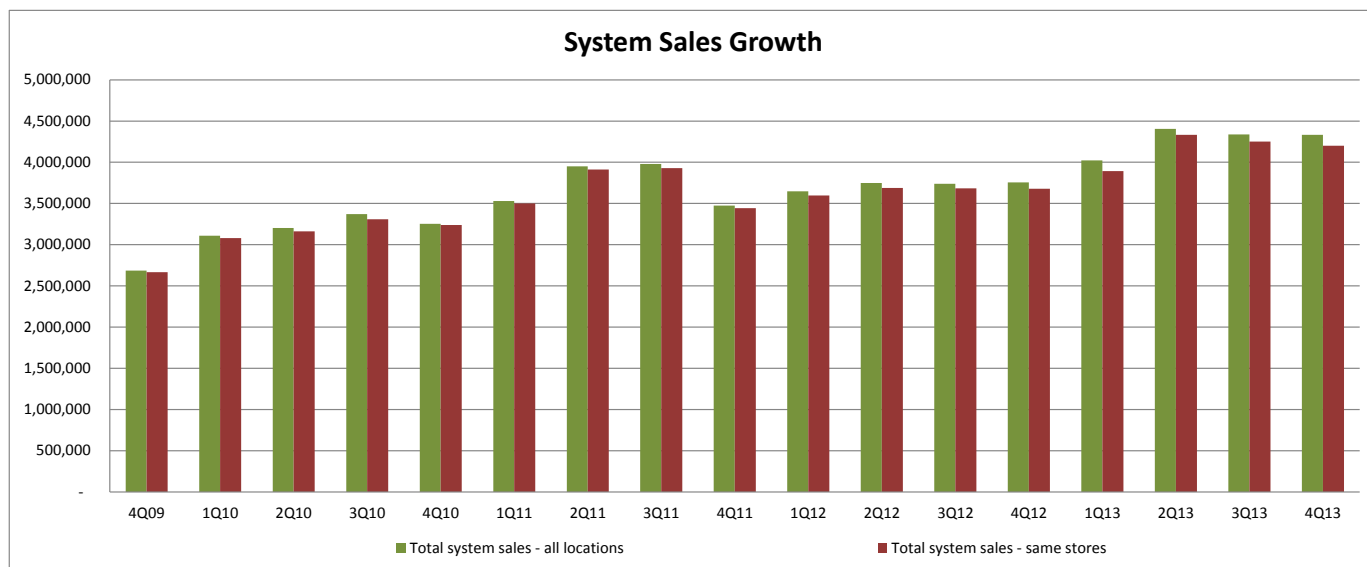
**Franchising & Licensing**

**System Sales**

Franchisees, corporate and international locations derive revenue by providing shredding services to their customers, and by selling recycled paper and other recyclable by-products. These sales are commonly referred to as "system sales," and are the key driver of royalty and service fee revenue. System sales are denominated and reported in US dollars during the reported periods as follows:

	3 months ended December 31			12 months ended December 31		
	2013	2012	%Ch	2013	2012	%Ch
Total world-wide operating locations at period end	31	28	11%	31	28	11%
Territories – United States	113.8	100.9	13%	113.8	100.9	13%
Total system sales (USD)	\$ 4,332,480	\$ 3,754,629	15%	\$ 17,099,691	\$ 14,890,134	15%
Total system sales (CDN)	\$ 4,463,754	\$ 3,721,213	20%	\$ 17,617,812	\$ 14,884,178	18%

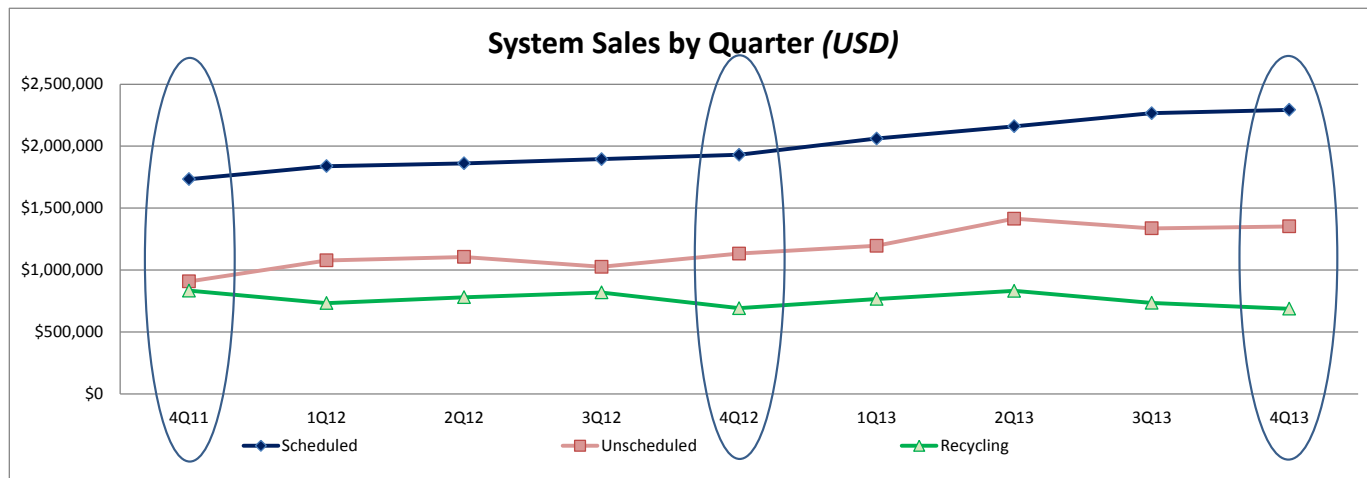
The following chart illustrates system sales growth by quarter since the fourth quarter of 2009.



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*System Sales Quarter Over Quarter:*

System sales are broken into three categories, scheduled service sales, unscheduled service sales and recycling.



Service related system sales, scheduled and unscheduled, were US\$14,080,406 for the twelve months ended December 31, 2013, growing by US\$2,213,084 or 19% over 2012.

Scheduled sales:

Scheduled sales are defined as the revenue generated from customers with regular service that may occur on a weekly, bi-weekly, or monthly basis. Proshred sales and marketing strategies have been and continue to be focused on this particular sales category, as this provides our franchisees and corporate locations with stable and recurring cash flows. This focus resulted in continued growth in this category in 2013 versus 2012. During the three months ended December 31, 2013, scheduled sales reached a record quarterly high of US\$2,293,052.

	3 months ended December 31			12 months ended December 31		
	2013	2012	%Ch	2013	2012	%Ch
	\$	\$		\$	\$	
Scheduled service sales (USD)	<b>2,293,052</b>	1,930,088	19%	<b>8,781,569</b>	7,525,895	17%
Same store scheduled service sales (USD)	<b>2,270,459</b>	1,930,088	18%	<b>8,703,031</b>	7,525,895	16%

Unscheduled sales:

Unscheduled sales are defined as the revenue generated from customers who have one-time or seasonal requirements for document destruction. An example of unscheduled sales is when an accounting firm is required to destroy an abundance of confidential working papers and documents after their tax season. During the three months ended December 31, 2013, unscheduled sales were \$1,352,362, growing 19% over the same period in 2012.

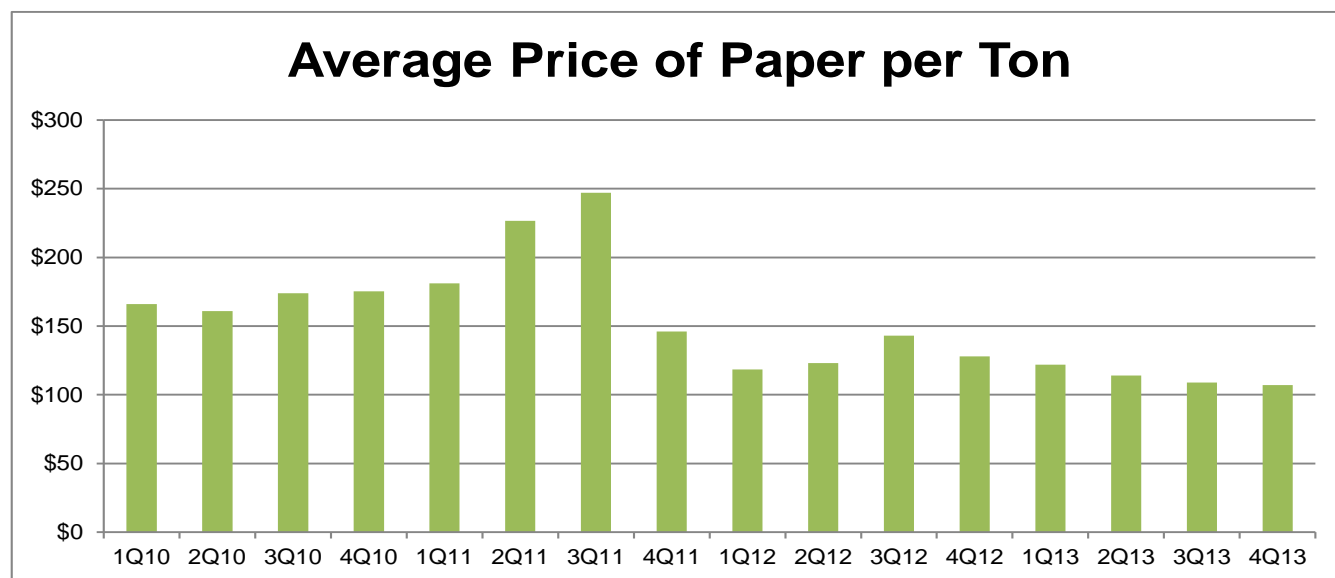
	3 months ended December 31			12 months ended December 31		
	2013	2012	%Ch	2013	2012	%Ch
	\$	\$		\$	\$	
Unscheduled service sales (USD)	<b>1,352,362</b>	1,132,535	19%	<b>5,298,837</b>	4,341,247	22%
Same store unscheduled service sales (USD)	<b>1,269,994</b>	1,132,535	12%	<b>5,043,528</b>	4,341,247	16%

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Recycling sales:

Recycling sales are defined as the revenue generated from the shredded paper and other material that is sold to various recycling companies. This sales category is driven by the price of paper, which is impacted by global supply and demand for shredded paper and the volume of paper recycled which is measured in tons.

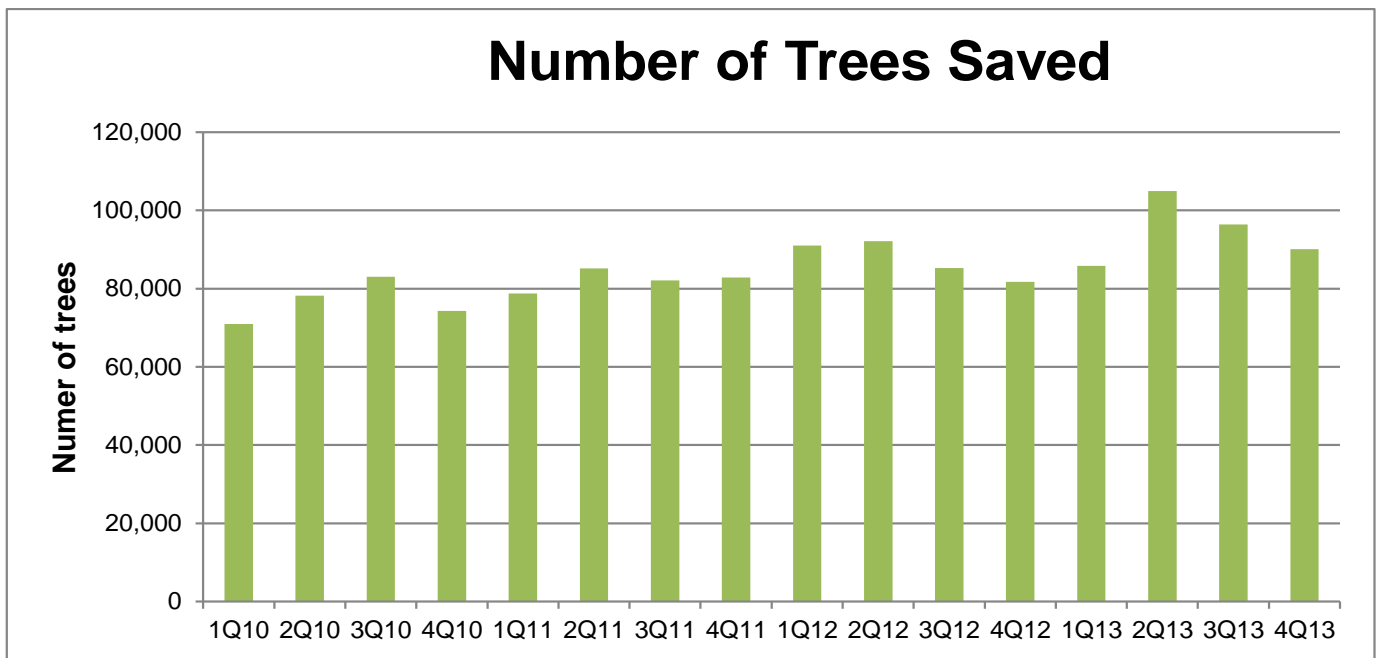
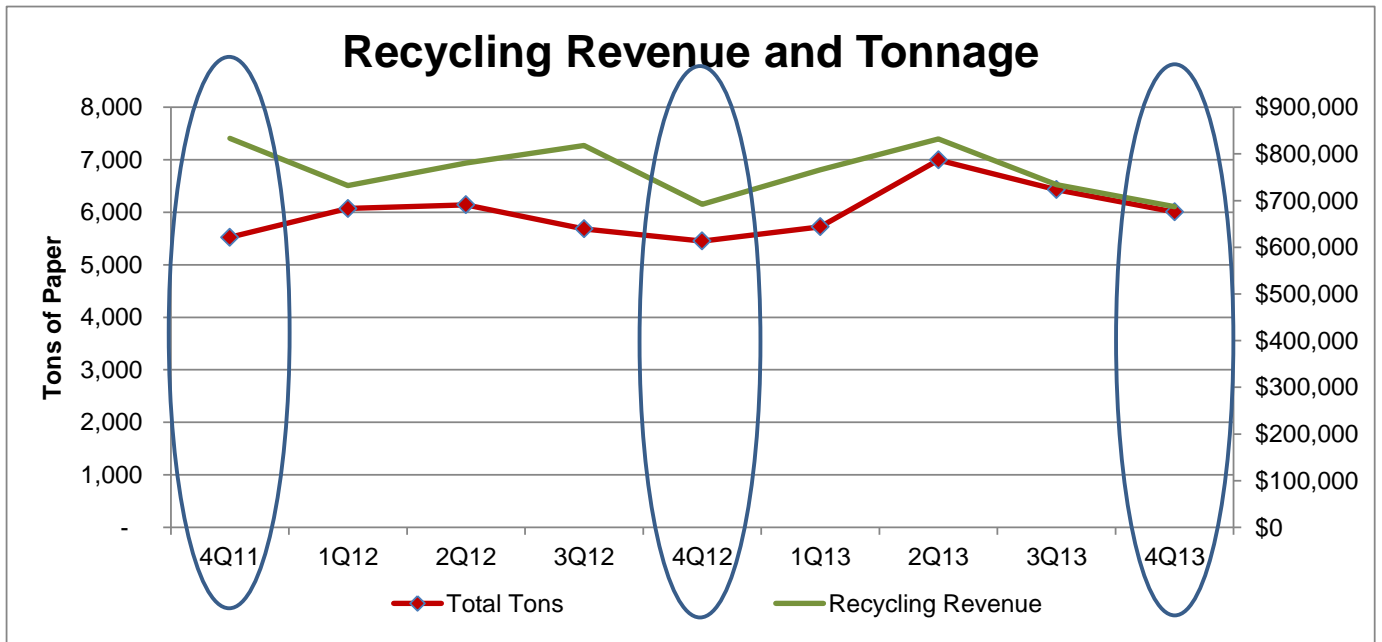
Historical Pricing Trends:



During the fourth quarter of 2013, the system shred and recycled 10% more paper than during the fourth quarter of 2012. The Proshred system shred and recycled 6,000 tons of paper during the fourth quarter of 2013, and 25,000 tons for the year ended 2013. During the twelve months ended December 31, 2013, the Proshred system saved 377,000 trees<sup>(1)</sup> (during the twelve months ended December 31, 2012 – 350,000). During the fourth quarter of 2013, the average price of paper in the Proshred system was \$107 per ton, versus \$126 in the fourth quarter of 2012.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Recycling sales (USD)	<b>687,066</b>	692,006	(1)%	<b>3,019,285</b>	3,022,992	0%
Same store recycling sales (USD)	<b>661,193</b>	692,006	(4)%	<b>2,933,574</b>	3,022,992	(3)%

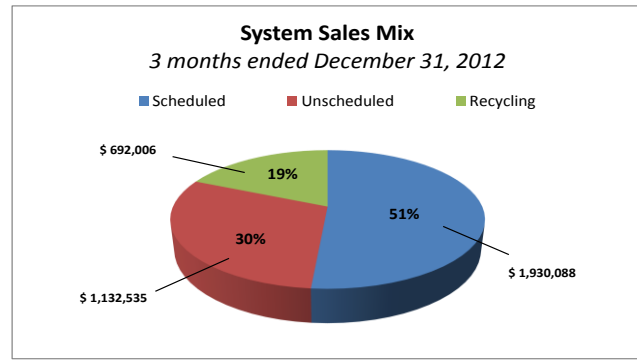
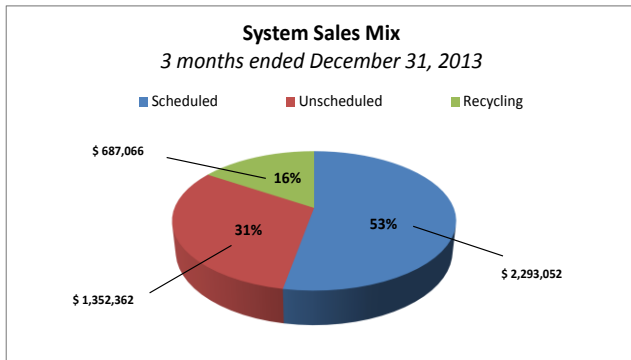
(1) The estimated amount of paper that can be produced from a tree has been conservatively estimated by management based on information taken from Conservatree.org.



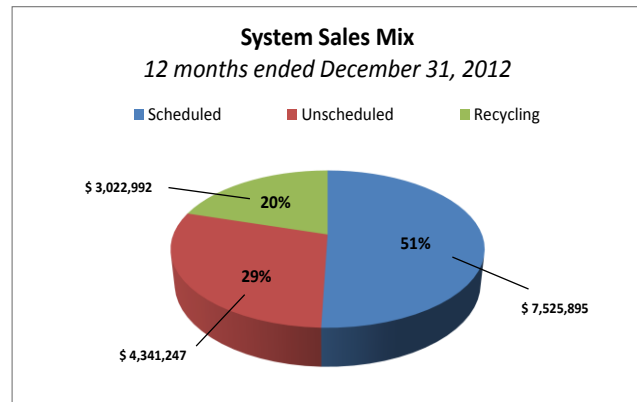
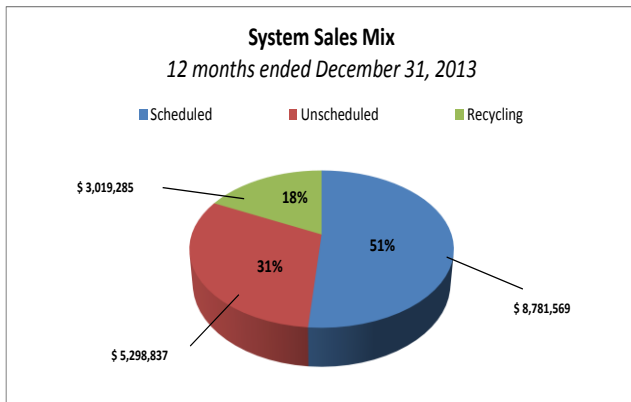
**REDISHRED CAPITAL CORP.  
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DECEMBER 31, 2013**

Mix of business:

Scheduled sales accounted for 53% of total sales for the quarter ended December 31, 2013 (December 31, 2012 – 51%). Unscheduled sales accounted for 31% of total sales for the three months ended December 31, 2013 (December 31, 2012 – 30%). Recycling sales accounted for 16% of total sales for the quarter ended December 31, 2013 (December 31, 2012 – 19%).



Scheduled sales accounted for 51% of total sales for the year ended December 31, 2013 (December 31, 2012 – 51%). Unscheduled sales accounted for 31% of total sales for the year ended December 31, 2013 (December 31, 2012 – 29%). Recycling sales accounted for 18% of total sales for the year ended December 31, 2013 (December 31, 2012 – 20%).



**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Total Franchising Revenue**

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	% Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Franchise and license fees	<b>4,047</b>	70,595	(94)%	<b>270,811</b>	304,478	(11)%
Royalty and service fees	<b>235,721</b>	210,420	12%	<b>970,989</b>	823,577	18%
<b>Total franchising revenue</b>	<b>239,768</b>	281,015	(15)%	<b>1,241,800</b>	1,128,055	10%

Royalties and service fees are charged for the use of the Proshred brand, trademarks and systems. Franchise and license fee revenue is generated when a franchise or license is awarded and training is completed. Royalty and service fees earned during the year ended December 31, 2013 were higher by 18% than in 2012 due to increased system sales, including scheduled and unscheduled system sales (refer to 'System Sales').

On June 24, 2013, the Company entered into an agreement with a new franchisee to operate a Proshred business in San Francisco, California. The Company recognized US\$153,650 in franchise fees associated with this new franchise in the third quarter of 2013. On July 10, 2013, the Company entered into an agreement with a new franchisee to operate a Proshred business in Seattle, Washington. The franchise fee of US\$102,550 associated with this new franchise was recognized in the third quarter of 2013. The Company did not earn any franchise fees in the fourth quarter of 2013.

The Company derives all franchise and license related revenues in US dollars which are translated at the average exchange rate for the period. For the three months ended December 31, 2013, total franchising revenue was US\$256,200. For the twelve months ended December 31, 2013, total franchising revenue was US\$1,196,562.

**Consolidated Operating Expenses**

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Salaries	<b>210,586</b>	217,731	3%	<b>802,950</b>	817,856	2%
General, administrative and marketing – on-going	<b>208,827</b>	224,041	6%	<b>782,723</b>	769,533	(2)%
General, administrative and marketing – one-time costs	<b>84,213</b>	22,222	(279)%	<b>84,213</b>	231,498	64%
Broker fees	<b>570</b>	24,139	98%	<b>85,121</b>	68,089	(25)%
Impairment of note receivable	<b>14,453</b>	–	(100)%	<b>14,453</b>	–	(100)%
Interest expense	<b>8,950</b>	–	(100)%	<b>33,556</b>	–	(100)%
<b>Total operating expenses</b>	<b>527,599</b>	488,133	(8)%	<b>1,803,016</b>	1,886,976	4%

Operating expenses for the three and twelve months ended December 31, 2013 include expenses to support 31 Proshred locations in operation, training and initial support for pending locations, and the costs to develop new markets by way of franchising, licensing and acquisition. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. Interest expense includes interest on the convertible debentures issued on December 31, 2012. The Company continues to closely monitor and control all operating expenses. During the three and twelve months ended December 31, 2012, one-time costs relate to the defence of the past litigation. During the three and twelve months ended December 31, 2013, one-time costs relate to the defence of the past litigation, legal fees related to the Charlotte acquisition and additional audit fees. As of April 29, 2014, all known claims against the Company were dismissed.

**Amortization – Franchising**

Amortization relates to the purchase of Professional Shredding Corporation (“PSC”) and the Proshred franchise business in 2008. For the three and twelve months ended December 31, 2013, amortization of intangibles related to the franchise and license operations decreased over the prior period due to the impairment of intangible assets of \$312,904 at December 31, 2012. Amortization is as follows:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Amortization – intangible assets	<b>91,501</b>	168,295	46%	<b>422,918</b>	524,253	19%

**Acquisition of franchise**

On July 31, 2013, the Company acquired the Proshred Charlotte business from an existing franchisee for an aggregate purchase price of US\$1,300,000. In order to finance the acquisition, the Company obtained loans aggregating US\$1,250,000 from related parties and a note payable for US\$50,000. The following table outlines the purchase price allocation, including the assets and liabilities purchased and the consideration given on the closing date of the acquisition.

<b>Charlotte</b>	<i>In USD</i>	<i>In CAD</i>
	\$	\$
<b>Assets acquired</b>		
Net Working capital	100,000	102,790
Equipment	600,281	617,028
Customer relationships	740,000	760,646
Re-acquired franchise rights	98,000	100,734
Gain on acquisition	(144,205)	(148,228)
Removal of original franchise agreement	(94,076)	(96,700)
	<u>1,300,000</u>	<u>1,336,270</u>
<b>Consideration given</b>		
Cash	1,250,000	1,284,875
Note payable	50,000	51,395
	<u>1,300,000</u>	<u>1,336,270</u>

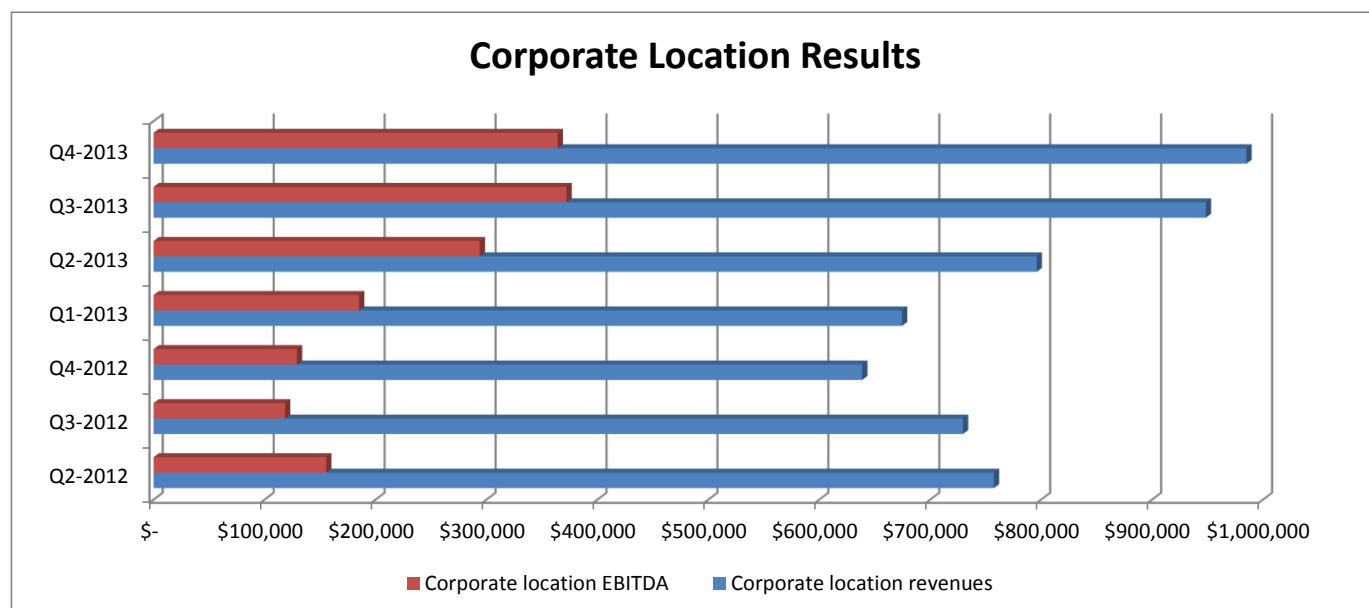
The Company translated the assets acquired and consideration given using the exchange rate on the date of the acquisition. In the above table, the preliminary purchase price allocation was translated at \$1USD = \$1.0279CAD.



**Corporate Operations**

The Company directly operates five shredding operations in Syracuse, Albany, Milwaukee, New York City and Charlotte. These locations represent the Company's corporately owned locations. The Miami business is currently operated by one of the Company's franchise locations. Refer to 'Miami Operations' and 'Transactions with Related Parties.' The Company earned rental revenue from the Miami business, which is included below.

	<i>3 months ended December 31</i>				<i>12 months ended December 31</i>			
	<b>2013</b>	% of revenue	<b>2012</b>	% of revenue	<b>2013</b>	% of revenue	<b>2012</b>	% of revenue
	<b>\$</b>		<b>\$</b>		<b>\$</b>		<b>\$</b>	
Revenue:								
Shredding service	<b>815,614</b>	83%	518,208	80%	<b>2,788,373</b>	81%	2,363,002	81%
Recycling	<b>157,822</b>	16%	120,586	19%	<b>592,942</b>	18%	568,920	19%
Rental revenue	<b>11,722</b>	1%	11,150	1%	<b>45,968</b>	1%	18,583	1%
<b>Total revenue</b>	<b>985,158</b>	100%	<b>649,944</b>	100%	<b>3,427,283</b>	100%	<b>2,950,505</b>	100%
Operating costs	<b>620,851</b>	63%	509,825	78%	<b>2,194,157</b>	64%	2,330,170	79%
Adjusted EBITDA	<b>364,307</b>	37%	140,119	22%	<b>1,233,126</b>	36%	620,335	21%



Corporate location revenues are generated in US dollars, which are translated at the average exchange rate for the period. For the three months ended December 31, 2013, corporate location revenues, denominated in US dollars were US\$956,205. For the year ended December 31, 2013, corporate location revenues, denominated in US dollars, were US\$3,326,491.

On July 31, 2013, the Company acquired the Charlotte franchise. The five month results of the Charlotte business are included in the three and twelve month results of the corporate operations. During the three months ended December 31, 2013, the corporate location revenues grew by 52% over the same comparative prior year period. Adjusted EBITDA increased 160% over the three months ended December 31, 2012.

### Same Store Corporate Operations

Same store corporate store results are indicators of performance of corporate stores that have been in the system for equivalent periods in 2013 and 2012. Same store corporate results include the operations of Syracuse, Albany, Milwaukee and New York City. During the three months ended December 31, 2013, the same store corporate location revenue grew by 10% and operating costs were reduced by 5%. This led to an increase in adjusted EBITDA of 74%. During the year ended December 31, 2013, adjusted EBITDA increased by 69% over the prior year.

	<i>3 months ended December 31</i>				<i>12 months ended December 31</i>			
	<b>2013</b>	% of revenue	2012	% of revenue	<b>2013</b>	% of revenue	2012	% of revenue
	\$		\$		\$		\$	
Revenue:								
Shredding service	<b>603,920</b>	85%	518,208	81%	<b>2,438,401</b>	83%	2,363,002	81%
Recycling	<b>103,221</b>	15%	120,586	19%	<b>504,657</b>	17%	568,920	19%
Total revenue	<b>707,141</b>	100%	638,794	100%	<b>2,943,058</b>	100%	2,931,922	100%
Operating costs	<b>481,978</b>	68%	509,561	80%	<b>1,925,837</b>	65%	2,328,340	79%
Adjusted EBITDA	<b>225,163</b>	32%	129,233	20%	<b>1,017,221</b>	35%	603,582	21%

### Miami Operations

During the 3<sup>rd</sup> quarter of 2013, the Company determined that the Miami location can be operated from its newly acquired Charlotte location. The Company began operating the Miami location directly on January 1, 2014. As the Miami business is no longer held for sale, the results of the operations of the entity previously presented in discontinued operations have been reclassified and included in income from continuing operations. The assets previously held for sale and liabilities directly associated with the assets classified as held for sale have been reclassified as current and non-current assets and liabilities. During the year ended December 31, 2013, the Company had a joint arrangement with the franchise in Tampa Bay, Florida to operate the Miami business. The results of the Miami business for the period have been accounted for as a joint arrangement with the Tampa Bay franchise. Within the joint arrangement, the Company earns royalty and service fees on the gross Miami revenues (classified under 'Franchising revenues') and rental revenue for the use of the shredding vehicle. The Company incurs finance costs on the monthly truck loan payments and depreciation and amortization on the Miami tangible and intangible assets.

**REDISHRED CAPITAL CORP.  
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**Depreciation and Amortization**

Depreciation and amortization relates to the assets purchased in relation to the Syracuse, Albany, Milwaukee, New York City and Charlotte corporate locations.

Depreciation and amortization are as follows:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Depreciation and amortization – equipment	<b>97,922</b>	55,038	78%	<b>318,410</b>	247,006	29%
Depreciation and amortization – intangibles	<b>72,319</b>	(21,478)	(437)%	<b>233,899</b>	231,427	1%
Depreciation and amortization	<b>170,241</b>	33,560	(407)%	<b>552,309</b>	478,433	15%

The increase in depreciation and amortization related to the corporate locations is due to the purchase of the Charlotte tangible and intangible assets on July 31, 2013.

**Operating loss**

For the three months ended December 31, 2013, the Company posted an operating loss of \$211,493. During the year ended December 31, 2013, the Company posted an operating loss of \$325,042. During 2013, in comparison to the prior year, the Company reduced its' corporate store costs and its' general, administrative and marketing costs, which led to a reduction in operating loss of 67%.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Operating loss	<b>(211,493)</b>	(278,851)	24%	<b>(325,042)</b>	(980,738)	67%
Operating loss – excluding one-time costs	<b>(127,280)</b>	(264,907)	52%	<b>(240,829)</b>	(749,240)	68%

**Foreign exchange**

Foreign exchange gain (loss) was as follows:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Foreign exchange gain (loss)	<b>170,655</b>	78,112	118%	<b>352,971</b>	(132,505)	366%

All of Redishred's revenues are denominated in US dollars; this dependency on US dollar revenues causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar or when the Company incurs significant US dollar costs. 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.

### Interest income and expense

Interest income is derived from cash savings accounts held by the Company and by way of finance income related to the financing of franchise fees. Interest expense relates to the use of the Company's line of credit facility which bears interest at 10% per annum, interest on the truck loan agreements, which bear interest at 6.502% to 10% per annum and interest on the convertible debentures at 7.5%. Interest expense also relates to the loan agreements for the purchase of the Proshred Charlotte franchise. The loans bear interest at 9% per annum. Interest expense increased in 2013 as a result of the following factors: the use of the line of credit to acquire the Miami business on July 13, 2012 and for general business purposes; and the interest on the convertible debentures issued on December 31, 2012.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Interest income	<b>1,262</b>	925	36%	<b>7,055</b>	4,785	47%
Interest expense	<b>(198,943)</b>	(165,092)	(21)%	<b>(712,098)</b>	(595,146)	(20)%

### Income Tax

On March 17, 2008 the Company booked a future tax liability relating to the purchase of PSC and Proshred Franchising Corp. ("PFC"). During the year ended December 31, 2013, the Company booked a tax recovery of \$21,802. The recovery is primarily due to the reversal of timing differences related to the future tax liability that was recorded upon the acquisition of PSC.

### Net Loss

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2013</b>	2012	%Ch	<b>2013</b>	2012	%Ch
	\$	\$		\$	\$	
Net income (loss)	<b>462,719</b>	(969,287)	148%	<b>(40,467)</b>	(2,802,536)	99%
Net loss – excluding one-time items	<b>(129,749)</b>	(131,162)	1%	<b>(535,661)</b>	(1,459,444)	63%

For the year ended December 31, 2013, net loss includes a reversal of impairment of \$431,180, a gain related to the Charlotte acquisition of \$148,228 and one-time operating costs of \$84,213. For the year ended December 31, 2012, net loss includes the settlement of the pre-existing franchise relationships as part of the New York City and Miami acquisitions of \$712,567, the impairment of goodwill and other intangible assets of \$545,008, the gain related to the NYC and Miami acquisitions of \$138,439, the gain on sale of assets of \$7,540 and one-time operating costs of \$231,498.

**REDISHRED CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2013**

**Selected Quarterly Results**

<i>(in CDN except where noted)</i>	2013				2012			
	Q4	Q3	Q2	Q1 <sup>(1)</sup>	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
<b>System sales (USD)</b>	<b>4,332,480</b>	<b>4,337,484</b>	<b>4,406,210</b>	<b>4,023,517</b>	<b>3,754,629</b>	<b>3,740,088</b>	<b>3,747,490</b>	<b>3,647,927</b>
<b>Total Company revenue</b>	<b>1,224,926</b>	<b>1,463,870</b>	<b>1,060,860</b>	<b>919,427</b>	<b>926,634</b>	<b>1,085,045</b>	<b>965,831</b>	<b>1,101,050</b>
Franchise and license fees	4,047	264,205	1,394	1,165	70,595	140,032	-	93,481
Royalty and service fees	235,721	251,040	258,469	225,759	210,420	203,609	208,285	201,627
<b>Total revenue from franchising and licensing</b>	<b>239,768</b>	<b>515,245</b>	<b>259,863</b>	<b>226,924</b>	<b>281,015</b>	<b>343,641</b>	<b>208,285</b>	<b>295,114</b>
On-going operating costs	(419,413)	(391,589)	(394,903)	(379,768)	(441,772)	(343,330)	(399,817)	(402,470)
One-time costs	(84,213)	-	-	-	(22,222)	(62,223)	(77,791)	(69,262)
Broker fees	(570)	(84,551)	-	-	(24,139)	(43,950)	-	-
Interest expense	(8,950)	(8,215)	(8,220)	(8,171)	-	-	-	-
Impairment of note receivable	(14,453)	-	-	-	-	-	-	-
Total operating expenses	(527,599)	(484,355)	(403,123)	(387,939)	(488,133)	(449,503)	(477,608)	(471,732)
<b>Total operating income (loss) – franchising and licensing</b>	<b>(287,831)</b>	<b>30,890</b>	<b>(143,260)</b>	<b>(161,015)</b>	<b>(207,118)</b>	<b>(105,862)</b>	<b>(269,323)</b>	<b>(176,618)</b>
Corporate locations revenue	985,158	948,625	800,997	692,504	649,944	737,078	757,546	805,937
Corporate locations operating costs	(620,851)	(576,365)	(502,251)	(494,691)	(509,825)	(612,642)	(601,950)	(605,753)
<b>Corporate locations adjusted EBITDA</b>	<b>364,307</b>	<b>372,260</b>	<b>298,746</b>	<b>197,813</b>	<b>140,119</b>	<b>124,436</b>	<b>155,596</b>	<b>200,184</b>
Depreciation – tangible assets	(97,922)	(97,969)	(58,743)	(63,776)	(55,038)	(67,667)	(62,291)	(62,010)
Interest expense	(190,047)	(168,783)	(161,511)	(158,201)	(165,092)	(151,488)	(140,199)	(138,367)
<b>Total operating income (loss) - corporate</b>	<b>76,338</b>	<b>105,508</b>	<b>78,492</b>	<b>(24,164)</b>	<b>(80,011)</b>	<b>(94,719)</b>	<b>(46,894)</b>	<b>(193)</b>
<b>Total operating income (loss) – excluding one-time costs – Company<sup>(1)</sup></b>	<b>(127,280)</b>	<b>136,398</b>	<b>(64,768)</b>	<b>(185,179)</b>	<b>(264,907)</b>	<b>(138,358)</b>	<b>(238,426)</b>	<b>(107,549)</b>
Income (loss) before taxes from continuing operations	465,654	(214,397)	(80,840)	(232,889)	(1,127,761)	(598,083)	(434,076)	(842,160)
Income (loss) attributable to owners of the parent	462,719	(214,588)	(68,280)	(220,317)	(969,287)	(591,396)	(418,385)	(823,468)
Loss excluding one-time items	(129,749)	(214,588)	(68,280)	(220,317)	(131,162)	(561,643)	(363,131)	(403,508)
Basic and diluted net income (loss) per share	.02	(.01)	(.00)	(.01)	(.04)	(.02)	(.01)	(.03)

(1) Certain amounts have been reclassified to conform to the current period's presentation.

### **Selected Quarterly Results (continued)**

Scheduled and unscheduled system sales continue to grow each quarter, driven by the Company's sales and marketing programs that are aimed at educating clients on the legislative requirements to destroy confidential information using a secure on-site solution. As shredding customers are serviced during business days, the quarterly system sales are impacted by the number of business days in any given quarter. Therefore, the Company experiences higher system sales and related royalty fees and corporate revenues in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of every year and lower system sales and related royalty fees and corporate revenues in the 1<sup>st</sup> and 4<sup>th</sup> quarters of every year.

### **Balance Sheet**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	\$	\$	\$
Working capital	<b>(322,594)</b>	403,730	2,240,245
Total assets	<b>8,983,915</b>	7,307,860	8,939,765
Total liabilities	<b>9,557,695</b>	7,782,856	6,660,197

The total assets of the Company have increased over the year ended December 31, 2012 as a result of the acquisition of the Proshred Charlotte business on July 31, 2013. The Company also purchased four new shredding vehicles during the year. The total liabilities of the Company have increased over the prior year as a result of the loan agreements the Company entered into with related parties to finance the Proshred Charlotte acquisition. The Company also financed the purchase of its' four new shredding vehicles.

The Company did not declare any dividends during the year.

### **Reversal of Impairment of Intangible Assets**

The Company performs an impairment test and reversal of impairment test of long-lived assets when there is an indication of impairment or reversal of impairment, which includes indicators such as whether actual sales are higher or lower than budgeted, profits are higher or lower than prior years' profits, and when significant events and circumstances indicate that the carrying amount may or may not be recoverable. Goodwill is tested for impairment at least annually.

Based on the impairment review performed at December 31, 2013, the recoverable amount of the CGUs was higher than the carrying amounts at the Company-wide level and the Company recorded a reversal of impairment of \$431,180 related to the Company's Trademarks, Franchise agreements and Proshred system. The events and circumstances that lead to this reversal include: improved overall cash flow margins, accretion to cash as a result of the Charlotte and Miami acquisitions and the addition of new franchisees and the related cash flows. The reversal of impairment was limited to restoring the carrying amounts such that they did not exceed the carrying amounts that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

### **Financial Condition, Capital Resources and Liquidity**

The Company closely monitors its cash balances and cash flows generated from operations to meet its requirements.

*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, Milwaukee in 2010 and New York City and Miami in 2012 as well as for general business purposes. During 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 interest remains at 10% per annum, paid semi-annually and the facility remains at \$6.03 million.

*Truck Loans*

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 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.

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 \$3,407 maturing February 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle.

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 \$195,218 at December 31, 2013. The value of the loan on December 31, 2013 is \$194,324.

*Finance Lease*

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 \$195,615 at December 31, 2013. The value of the loan on December 31, 2013 is \$144,434.

*Charlotte Debt Financing*

On July 31, 2013, the Company acquired the Proshred Charlotte business from an existing franchisee, which the Company believes will be accretive to its' cash flows and lead to positive cash flows for the Company. In order to finance the acquisition of the Charlotte location, the Company obtained the following loans from related parties:

- (a) a 5 year loan agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (b) a 5 year loan agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (c) a 4 year loan agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan bears interest at 9% per annum;
- (d) a 4 year loan agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan bears interest at 9% per annum; and
- (e) a 5 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 \$518,881 at December 31, 2013.



**REDISHRED CAPITAL CORP.  
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DECEMBER 31, 2013**

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*Convertible debenture financing*

On December 31, 2012, the Company obtained financing, directly or indirectly from the Company's insiders. 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 such deferred interest payment shall 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.

*Financial Strategy*

In addition, in 2012 and early 2013 the Company implemented a cost reduction strategy which included the elimination of its baling facility in New York City and reducing costs throughout its corporate locations. The Company has sold its baling equipment and remaining equipment related to the baling facility closure. The Company has concurrently implemented a strong sales focused approach and has dedicated sales leads in each corporate location with an aim to grow revenues and cash flows. As of January 1, 2014, the Company began operating the Miami location directly, which the Company believes will further drive increased sales and cash flows. The Company also continues to award new franchise locations, which generate between \$35,000 and \$100,000 in franchise fees per new franchise as well as adds recurring royalty revenues.

At December 31, 2013, current liabilities of \$1,430,600 (December 31, 2012 - \$739,119) are due to be settled within one year from the balance sheet date. It is management's plan to continue its core business strategy of (1) growing its corporate locations, (2) continuing to franchise in the United States and (3) conducting accretive acquisitions.

The Company has the following lease commitments:

	\$
Less than 1 year	<b>182,633</b>
Between 1 and 5 years	<b>468,389</b>
Total	<b>651,022</b>

Based on overall cash generation capacity and financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due over the next twelve months.

**Equipment**

<i>As at,</i>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>% Ch</u>
	\$	\$	
Net book value	<b>2,195,083</b>	1,267,395	73%

During the year ended December 31, 2013, capital assets (not including intangible assets) increased as a result of the additions of four new shredding vehicles for the New York City and Milwaukee locations and the acquisition of the Charlotte business and related tangible assets.

**Off-Balance Sheet Financing Arrangements**

The Company has no off-balance sheet financing arrangements.

**Transactions with Related Parties**

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. Included in accounts receivable at December 31, 2013, is \$727 (2012 - \$1,945) due from this franchise. During the year ended December 31, 2013, the Company earned royalty and service fees amounting to \$88,981 (2012 - \$78,289) from this franchise.



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Until December 31, 2013, the Director's franchise managed the corporately owned Proshred Miami business on the Company's behalf. The Company earned royalty and service fees of \$27,099 during the year ended December 31, 2013 from the Miami operations. Included in accounts receivable at December 31, 2012 is \$2,137 due from the Miami operations.

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. 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. Refer to Note 16 for additional information.

Included in selling, general and administrative expenses for the year ended December 31, 2013 are insurance premium amounts of \$18,564 (December 31, 2012 - \$13,037) 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 acquisition of the Charlotte location, the Company obtained the following loans from related parties:

- (a) a 5 year loan agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (b) a 5 year loan agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually;
- (c) a 4 year loan agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan bears interest at 9% per annum;
- (d) a 4 year loan agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan bears interest at 9% per annum; and
- (e) a 5 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 \$518,881 at December 31, 2013.

## **Risks and Uncertainties**

The Company's financial performance is likely to be subject to the following risks:

### *Competition*

The Company competes with numerous owners and operators in the document destruction business, some of which own or may in the future own, businesses that compete directly with the Company and some of which may have greater resources. Direct competitors to the Company include Iron Mountain Incorporated, Recall, Shred-It America, Inc., Cintas, Brinks and other small, independent mobile shredding businesses.

### *Financing*

The Company is still in its early stage of development and has not yet reached the size and scale to generate sufficient royalty and fee revenues to produce a positive cash flow from its franchise system. Accordingly, the Company may require additional capital to operate and grow so as to reach this necessary critical mass. Additionally, the Company will continue to identify and evaluate other shredding businesses or related assets with a view to acquiring such businesses or assets that are accretive to the cash flows of the Company. In order to complete these acquisitions, the Company will be required to seek additional financing.

### *Franchising Strategy*

The Company's business strategy involves the establishment of new Franchises. The Company may not be successful in establishing new Franchises and the failure to do so will slow the Company's growth. Furthermore, even if the Company were successful in establishing new Franchises, these new Franchises may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with terminating these Franchises or ensuring their continued operation. If the new Franchises fail to perform as expected or incur significant increases in projected costs, the Company's revenues could be lower, and its operating expenses higher, than expected.

### *Acquisition Strategy*

The Company's business strategy involves expansion through acquisitions and business development projects. These activities require the Company to identify acquisition or development candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying document destruction businesses that meet its acquisition or development criteria or in completing acquisitions, developments or investments on satisfactory terms. Failure to complete acquisitions or developments will slow the Company's growth. The Company could also face significant competition for acquisitions and development opportunities. The Company may also require additional financing to conduct acquisitions. Some of the Company's competitors have greater financial resources than the Company and, accordingly, have a greater ability to borrow funds to acquire businesses.

These competitors may also be willing and/or able to accept more risk than the Company can prudently manage, including risks with respect to the geographic concentration of investments and the payment of higher prices. This competition for investments may reduce the number of suitable investment opportunities available to the Company, may increase acquisition costs and may reduce demand for document destruction services in certain areas where the Company's business is located and, as a result, may adversely affect the Company's operating results.

### *Corporate Locations*

The Company's newly acquired businesses may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with the integration of the acquired businesses. In addition, any business expansions the Company undertakes is subject to a number of risks, including, but not limited to, having sufficient ability to raise capital to fund future expansion, and having sufficient human resources to convert, integrate and operate the acquired businesses. If any of these problems occur, expansion costs for a project will increase, and there may be significant costs incurred for projects that are not completed.

In deciding whether to acquire or expand a particular business, the Company will make certain assumptions regarding the expected future performance of that business. If the Company's acquisition or expansion businesses fail to perform as expected or incur significant increases in projected costs, the Company's revenues could be lower, and its operating expenses higher, than expected.

### *International Strategy*

The Company's business strategy involves expansion into international markets through licensing. These activities require the Company to identify international candidates and meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying licensees that meet its licensing criteria. Failure to expand internationally will slow the Company's growth.

Additionally, the international licensee under the Companies current license agreement may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with ensuring their continued growth. If the international licensee fails to perform as expected, the Company's revenues could be lower.

### *Currency Fluctuations*

The Company's principal executive office is in Canada, all the directors and officers of the Company are Canadian and many significant expenses of the Company are in and will be for the foreseeable future in Canadian dollars, while revenues will be measured in US dollars. Accordingly, the financial results of the Company will be impacted by fluctuations in currencies and rates.

### *Expansion to New Markets*

It is the plan of management to continue expanding the Proshred Franchise Business in the United States and internationally including areas where customers are unfamiliar with the Proshred brand. The Company will need to build brand awareness in those markets through greater investments in advertising and promotional activity than in existing markets, and those activities may not promote the Proshred brand as effectively as intended, if at all. Many of the United States and international markets into which management intends to expand will have competitive conditions, consumer tastes and discretionary spending patterns that differ from existing markets. Franchises in those markets may have lower sales and may have higher operating or other costs than existing Franchises. Sales and profits at Franchises opened in new markets may take longer to reach expected levels or may never do so.

### *Litigation*

The Company may become subject to disputes with employees, franchisees, customers, commercial parties with whom it maintains relationships or other parties with whom it does business. Any such dispute could result in litigation between the Company and the other parties. Whether or not any dispute actually proceeds to litigation, the Company may be required to devote significant resources, including management time and attention, to its successful resolution (through litigation, settlement or otherwise), which would detract from management's ability to focus on the Company's business. Any such resolution could involve the payment of damages or expenses by the Company, which may be significant. In addition, any such resolution could involve the Company's agreement to certain settlement terms that restrict the operation of its business.

### **Use of estimates and judgements**

The preparation of the financial report in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Subjects that involve critical assumptions and estimates and that have a significant influence on the amounts recognized in the consolidated financial report are further described as follows:

*i) Business combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values, which represents a significant estimate. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in an amendment of the fair value allocation.

*ii) Impairment and reversal of impairment*

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the assets might be impaired or any indications that impairment of assets other than goodwill should be reversed. The determination of the value in use and fair value of a CGU to which goodwill is allocated to involves the use of estimates by management. The Company uses discounted cash flow based methods to determine these values. These discounted cash flow calculations typically use five-year projections that are based on the operative plans approved by management. Cash flow projections take into account past experience and represent management's best estimate of future developments. Cash flows after the planning period are extrapolated using estimated growth rates. Key assumptions on which management has based its determination of value-in-use include estimated growth rates, discount rates, future cash flows, margins and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment or reversal of impairment.

*iii) Useful lives of tangible and intangible assets*

Management estimates the useful lives of tangible and definite life intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of these assets for any period are affected by these estimated useful lives. On an annual basis, the Company assesses the useful lives of its tangible and intangible assets with definite lives and the useful lives are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's tangible and definite life intangible assets in the future.

*iv) Deferred income taxes*

The Company, including its subsidiaries, operate and earn income in multiple countries and is subject to changing tax laws in multiple jurisdictions within these countries. Significant judgements are necessary in determining income tax assets and liabilities. Although management believes that it has made reasonable estimates about the final outcome of tax uncertainties, no assurance can be given that the final outcome of these tax matters will be consistent with what is reflected in the historical income tax provisions. Such differences could have an effect on the deferred tax assets and liabilities in the period in which such determinations are made. At each date of Statement of Financial Position, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets and liabilities. This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets and liabilities could be materially affected if changes in current tax regulations are enacted.

**Investor Relations Activities**

The Company does not have any investor relations arrangements.

### **Share Data**

The Company's authorized share capital is unlimited common shares without par value. As at December 31, 2013, there were 28,884,658 issued and outstanding common shares. As at December 31, 2013 there were 1,462,500 options to acquire common shares and 4,000,000 warrants to acquire common shares. During the year ended December 31, 2013, 278,750 stock options expired (2012 – 978,750). There have been 50,000 stock options granted during the year (2012 – 992,500). As of April 29, 2014 there are 28,884,658 issued and outstanding common shares, 1,462,500 options to acquire common shares and 4,000,000 warrants to acquire common share. There are 1,250,000 common shares issuable on conversion of the debentures.

### **Subsequent events**

In December of 2013, the Company entered into an agreement with a new franchisee to operate a Proshred shredding business in Southern New Jersey. The Company recognized franchise fee revenue in January of 2014. The Company expects its new franchisee to commence operations in the second quarter of 2014.

On February 14, 2014, the Company and the franchisee agreed to settle all litigation and the appeal filed with the US District Court was withdrawn. As of April 29, 2014, all legal claims have been settled.

Dated: April 29, 2014

