

# **RediShred Capital Corp.**

Consolidated Interim Financial Statements

**March 31, 2015 and 2014**

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

**May 29, 2015**

**In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2015.**

# RediShred Capital Corp.

## Consolidated Statements of Financial Position

As at March 31, 2015 and December 31, 2014

(expressed in Canadian dollars)

	March 31, 2015	December 31, 2014
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	310,288	366,211
Cash attributable to the Advertising Fund (note 3)	69,271	80,102
Trade receivables	695,690	588,018
Prepaid expenses	154,080	80,841
Notes receivable from franchisees	98,040	84,230
	<u>1,327,369</u>	<u>1,199,402</u>
<b>Non-current assets</b>		
Notes receivable from franchisees	145,830	159,841
Equipment (note 4)	2,734,944	2,594,476
Intangible assets (note 5)	3,514,062	3,504,707
Goodwill (notes 6)	1,733,602	1,591,079
	<u>8,128,438</u>	<u>7,850,103</u>
<b>Total assets</b>	<u>9,455,807</u>	<u>9,049,505</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	867,348	731,356
Current portion of notes payable	79,930	102,452
Current portion of long-term debt (note 7)	780,475	761,501
	<u>1,727,753</u>	<u>1,595,309</u>
<b>Non-current liabilities</b>		
Long-term debt (note 7)	7,092,603	7,323,762
Deferred tax liability	158,340	154,076
Convertible debentures (note 9)	343,971	342,645
	<u>7,594,914</u>	<u>7,820,483</u>
<b>Total liabilities</b>	<u>9,322,667</u>	<u>9,415,792</u>
<b>Shareholders' Equity</b>		
Capital Stock (note 8)	8,585,808	8,585,808
Contributed surplus	375,446	375,387
Accumulated other comprehensive loss	(279,080)	(172,610)
Deficit	(8,549,034)	(9,154,872)
	<u>133,140</u>	<u>(366,287)</u>
<b>Total liabilities and shareholders' equity</b>	<u>9,455,807</u>	<u>9,049,505</u>
<b>Commitments and contingency</b> (note 13)		

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

## RediShred Capital Corp.

### Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2015 and 2014

(expressed in Canadian dollars)

	2015 \$	2014 \$
Revenue (note 10)	1,772,950	1,485,580
Corporate operating locations expenses (note 11)	(798,527)	(640,594)
Depreciation – equipment	(120,778)	(94,746)
Selling, general and administrative expenses (note 12)	(405,279)	(410,166)
<b>Operating income</b>	<b>448,366</b>	<b>340,074</b>
Amortization – intangible assets	(225,812)	(210,060)
Foreign exchange gain	561,664	205,279
Gain on sale of assets (note 4)	3,096	–
Interest expense	(188,869)	(210,314)
Interest income	2,282	2,149
	<b>152,361</b>	<b>(212,946)</b>
<b>Income before income taxes</b>	<b>600,727</b>	<b>127,128</b>
Income tax recovery	5,111	13,525
<b>Net income for the period</b>	<b>605,838</b>	<b>140,653</b>
<b>Other comprehensive income</b>		
Foreign currency translation loss	(106,470)	(55,567)
<b>Comprehensive income for the period</b>	<b>499,368</b>	<b>85,086</b>
<b>Net income per share</b>		
Basic and diluted	0.02	0.00
<b>Weighted average number of commons shares outstanding – basic</b>	<b>28,884,658</b>	<b>28,884,658</b>
<b>Weighted average number of commons shares outstanding – diluted</b>	<b>28,904,538</b>	<b>28,884,658</b>

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, 2015 and 2014

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 8)	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total shareholders' equity/(deficiency) \$
<b>Balance – January 1, 2014</b>	8,585,808	372,479	(134,400)	(9,397,667)	(573,780)
Net income for the year	–	–	–	242,795	242,795
Other comprehensive income Foreign currency translation loss	–	–	(38,210)	–	(38,210)
Comprehensive income for the year	–	–	–	–	204,585
Stock-based compensation (note 8)	–	2,908	–	–	2,908
<b>Balance – December 31, 2014</b>	<u>8,585,808</u>	<u>375,387</u>	<u>(172,610)</u>	<u>(9,154,872)</u>	<u>(366,287)</u>
Net income for the period	–	–	–	605,838	605,838
Other comprehensive income Foreign currency translation loss	–	–	(106,470)	–	(106,470)
Comprehensive income for the period	–	–	–	–	499,368
Stock-based compensation (note 8)	–	59	–	–	59
<b>Balance – March 31, 2015</b>	<u>8,585,808</u>	<u>375,446</u>	<u>(279,080)</u>	<u>(8,549,034)</u>	<u>133,140</u>

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

# RediShred Capital Corp.

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2015 and 2014

(expressed in Canadian dollars)

<b>Cash provided by (used in)</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net income for the period	605,838	140,653
Items not affecting cash		
Amortization of equipment and intangible assets	269,876	306,647
Stock-based compensation	59	26
Unrealized foreign currency gain	(521,670)	(258,268)
Gain on sale of assets	(3,096)	—
Income tax recovery	(5,111)	(13,525)
	<u>345,896</u>	<u>175,533</u>
Net change in non-cash working capital balances		
(Increase) in trade receivables	(107,673)	(94,006)
(Increase) in prepaid expenses	(73,237)	(18,258)
Decrease in notes receivable from franchisees	202	6,076
(Decrease) in deferred revenue	—	(57,966)
Increase in accounts payable and accrued liabilities	<u>135,992</u>	<u>111,840</u>
Net cash from operations	301,180	123,219
<b>Financing activities</b>		
Repayment of long-term debt	(339,906)	(91,070)
Repayment of notes payable	<u>(22,522)</u>	<u>(33,396)</u>
	(362,428)	(124,466)
<b>Investing activities</b>		
Cash held by advertising fund	10,831	(2,986)
Purchase of capital assets	<u>(29,387)</u>	<u>(7,664)</u>
	<u>(18,556)</u>	<u>(10,650)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>23,880</u>	<u>11,817</u>
<b>Net change in cash for the period</b>	(55,924)	(79)
<b>Cash – Beginning of period</b>	<u>366,212</u>	<u>348,999</u>
<b>Cash – End of period</b>	<u>310,288</u>	<u>348,920</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, 2015

(expressed in Canadian dollars)

---

### 1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally (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 six locations in the United States and, (3) licensing internationally.

### 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2014, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2015. Together, Redishred and its subsidiaries are referred to as “the Company.”

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2014 and have been consistently applied in the preparation of these consolidated financial statements. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

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

The interim consolidated financial statements of the Company for the three months ended March 31, 2015 were authorized for issue in accordance with a resolution of the Directors on May 28, 2015.

### 3 Advertising fund

The Company manages an advertising fund (the “Ad Fund”) established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a level of sales of each location’s revenue. In accordance with *IAS 18 – Revenue*, the revenue and expenses of the Ad Fund are recorded net in the Company’s statements of comprehensive income because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at March 31, 2015, the cash attributable to the Ad Fund amounted to \$69,271 (2014 - \$80,102).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 4 Equipment

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2014	132,256	66,658	260,050	751,801	1,769,531	–	61,583	3,041,879
Additions	5,198	420	77,481	152,565	382,416	–	–	618,080
Sale of assets	(8,045)	–	–	(50,576)	(84,106)	–	–	(142,727)
Foreign exchange	9,761	4,919	20,872	77,270	174,522	–	4,623	291,967
As at December 31, 2014	139,170	71,997	358,403	931,060	2,242,363	–	66,206	3,809,199
Additions	2,433	425	13,330	–	–	11,764	–	27,952
Sale of assets	(1,898)	–	–	–	–	–	–	(1,898)
Foreign exchange	5,336	1,250	42,681	124,948	300,925	264	1,802	477,206
As at March 31, 2015	145,041	73,672	414,414	1,056,008	2,543,288	12,028	68,008	4,312,459

  

Accumulated depreciation	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2014	107,911	58,579	82,997	158,560	404,305	–	34,444	846,796
Depreciation	9,478	5,059	59,557	99,587	228,107	–	8,465	410,253
Sale of assets	–	–	–	(43,043)	(62,749)	–	–	(105,792)
Foreign exchange	8,860	4,399	6,125	11,702	29,838	–	2,542	63,466
As at December 31, 2014	126,249	68,037	148,679	226,806	599,501	–	45,451	1,214,723
Depreciation	2,419	1,086	19,925	19,004	60,054	196	2,374	105,058
Sale of assets	(554)	–	–	–	–	–	–	(554)
Foreign exchange	4,540	710	18,144	65,684	169,210	–	–	258,288
As at March 31, 2015	132,654	69,833	186,748	311,494	828,765	196	47,825	1,577,515

  

Net book value	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at December 31, 2014	12,921	3,960	209,724	704,254	1,642,862	–	20,755	2,594,476
As at March 31, 2015	12,387	3,839	227,666	744,514	1,714,523	11,832	20,183	2,734,944

During the three months ended March 31, 2015, the Company purchased computers, furniture, shredding containers and a hard-drive crusher. 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, 2015 and December 31, 2014. Depreciation related to the corporate stores and the franchising and licensing business is included in the statement of comprehensive income.

The Company has two shredding vehicles held under a finance lease arrangement. As of March 31, 2015, the net carrying amount of the related shredding vehicles, included as part of equipment is \$475,078. The finance lease liabilities (refer to note 7) are secured by the related assets held under the finance leases.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 5 Intangible assets

Cost	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2014	2,385,532	978,000	1,672,500	1,008,159	1,886,225	7,930,416
Additions	–	–	–	–	14,713	14,713
Foreign exchange	294,769	–	–	94,080	178,348	567,197
As at December 31, 2014	2,680,301	978,000	1,672,500	1,102,239	2,079,286	8,512,326
Additions	–	–	–	–	–	–
Foreign exchange	202,631	–	–	98,497	185,807	486,935
As at March 31, 2015	2,882,932	978,000	1,672,500	1,200,736	2,265,093	8,999,261

  

Accumulated amortization	Trademarks and intellectual property					Total
	Franchise agreements	Proshred system	intellectual property	Re-acquired franchise rights	Customer relationships	
	\$	\$	\$	\$	\$	\$
As at January 1, 2014	1,517,307	570,491	975,627	527,607	280,137	3,871,169
Amortization	215,859	97,800	167,250	163,700	196,148	840,757
Reversal of previous impairment	(27,452)	–	–	–	–	(27,452)
Foreign exchange	225,830	–	–	58,650	38,665	323,145
As at December 31, 2014	1,931,544	668,291	1,142,877	749,957	514,950	5,007,619
Amortization	62,956	24,450	41,802	40,591	55,388	225,187
Foreign exchange	137,166	–	–	67,946	47,281	252,393
As at March 31, 2015	2,131,666	692,741	1,184,679	858,494	617,619	5,485,199

  

Net book value						
As at December 31, 2014	748,757	309,709	529,623	352,282	1,564,336	3,504,707
As at March 31, 2015	751,266	285,259	487,821	342,242	1,647,474	3,514,062

During the three months ended March 31, 2015 the Company did not purchase any intangible assets. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2015 and December 31, 2014. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company's franchises and corporately owned locations in the US.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 6 Goodwill

The following table presents goodwill for the three months ended March 31, 2015 and for the year ended December 31, 2014:

	March 31, 2015	December 31, 2014
	\$	\$
<b>Opening balance</b>	1,591,079	1,455,467
Foreign currency translation	142,523	135,612
<b>Closing balance</b>	1,733,602	1,591,079

### 7 Long-term debt

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

	March 31, 2015	December 31, 2014
	\$	\$
Line of credit (i)	5,533,822	5,769,860
Less: deferred financing charges	(1,842)	(14,722)
Line of credit net of deferred financing charges	5,531,980	5,755,138
Truck loans (ii)	796,421	806,077
Finance lease liability (iii)	406,080	386,855
Term loans (iv)	1,138,597	1,137,193
Total long-term debt	7,873,078	8,085,263
Less: current portion	(780,475)	(761,501)
<b>Total</b>	7,092,603	7,323,762

#### (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 other terms of the agreement remained unchanged upon extending the facility's term. The total unamortized transactions costs as at September 2013 are amortized over the extended term of four years, ending November 27, 2017. The Company has \$488,237 available for use on its line as of March 31, 2015.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 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 CAD\$265,723 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$49,102 (US\$38,767).

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 CAD\$71,871 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$18,580 (US\$14,669).

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 CAD\$175,726 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$84,771 (US\$66,929).

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 CAD\$237,672 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$92,643 (US\$73,143).

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 CAD\$240,073 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$136,014 (US\$107,385).

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 CAD\$202,800 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$178,884 (US\$141,232).

On September 16, 2014, the Company entered into a loan and security agreement in the amount of US\$204,000, repayable with monthly blended payments of principal and interest of US\$4,055 maturing September 16, 2019. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of CAD\$292,096 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$236,425 (US\$186,661).

#### *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 CAD\$203,338 at March 31, 2015. The balance of the loan on March 31, 2015 is CAD\$144,205 (US\$113,852).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 7 Long-term debt (continued)

#### iii) Finance lease liability (continued)

On July 17, 2014, the Company entered into a finance lease in the amount of US\$226,432, repayable with monthly blended payments of principal and interest of US\$3,861 with a final payment of US\$50,610, maturing August 20, 2019. The loan bears interest at 7.621% per annum and is secured by one shredding vehicle with a carrying value of CAD\$271,740 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$261,875 (US\$206,754).

Future minimum finance lease payments at March 31, 2015, stated in Canadian dollars, were as follows:

	Minimum lease payments due					Total
	2015	2016	2017	2018	2019	
	\$	\$	\$	\$	\$	\$
Lease payments	93,594	93,595	93,594	129,687	83,668	494,139
Finance charges	(29,165)	(23,995)	(18,408)	(14,186)	(2,304)	(88,059)
Net present values	64,429	69,600	75,186	115,501	81,364	406,080

The future minimum lease payments have been translated at the closing rate at March 31, 2015 using an exchange rate of USD\$1.00 = CAD\$1.2666.

#### 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 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The estimated fair value of the loan on March 31, 2015 is CAD\$575,750;
- A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The estimated fair value of the loan on March 31, 2015 is CAD\$94,995 (US\$75,000);
- A 4 year loan and security agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on March 31, 2015 is CAD\$64,640;
- A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on March 31, 2015 is CAD\$40,937 (US\$32,320); and

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 7 Long-term debt (continued)

#### iv) Term loans (continued)

(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 CAD\$469,001 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$412,273 (US\$325,496).

### 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, 2015 and the year ended December 31, 2014, there were no changes in issued common shares of the Company.

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

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

#### c) Weighted average common shares

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

#### d) Stock options

At March 31, 2015, the Company has 1,257,500 options outstanding (December 31, 2014 – 1,252,500) and a weighted average exercise price of \$0.18 (December 31, 2014 - \$0.18). There were 5,000 stock options granted during the three months ended March 31, 2015 (for the three months ended March 31, 2014 – 5,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$59 (for the three months ended March 31, 2014 – \$26).

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 9 Convertible debentures

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

	<u>2015</u>	<u>2014</u>
	\$	\$
Opening balance of liability component net of transaction costs	342,645	337,882
Accretion expense	1,326	4,763
Closing balance of liability component net of transaction costs	<u>343,971</u>	<u>342,645</u>
Equity component net of transaction costs	27,710	27,710
Deferred tax liability related to the equity component	7,633	7,633
Equity component net of transaction costs and tax	<u>20,077</u>	<u>20,077</u>

### 10 Revenue

The revenue earned by the Company for the three months ended March 31, 2015 and 2014 is broken down as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Royalties	371,992	258,058
Franchise fees	24,766	65,563
License fees	2,130	4,225
Shredding services	1,136,674	952,301
Sale of paper products	237,388	205,433
<b>Total revenue</b>	<u>1,772,950</u>	<u>1,485,580</u>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 11 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three months ended March 31, 2015 and 2014 are broken down as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Shredding vehicle and related expenses	210,990	158,997
Employee wages expense	354,527	286,079
Employee benefit expense	85,508	66,241
Office and administration expense	<u>147,502</u>	<u>129,277</u>
<b>Total corporate operating expenses</b>	<b><u>798,527</u></b>	<b><u>640,594</u></b>

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

The selling, general and administrative expenses incurred by the Company for the three months ended March 31, 2015 and 2014 are broken down as follows:

	<u>2015</u>	<u>2014</u>
	\$	\$
Employee wages expense	163,860	186,628
Employee benefits expense	18,726	19,262
Share-based compensation	59	26
Professional fees	54,424	44,760
Technology	80,164	55,331
Rent and office expense	19,746	27,875
Selling and development	19,564	47,551
Amortization of deferred financing charges	1,842	1,842
Other	<u>46,894</u>	<u>26,891</u>
<b>Total selling, general and administrative expenses</b>	<b><u>405,279</u></b>	<b><u>410,166</u></b>

#### Compensation of key management

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

	<u>2015</u>	<u>2014</u>
	\$	\$
Wages and benefits	87,107	139,064
Share-based compensation	-	26
<b>Total</b>	<b><u>87,107</u></b>	<b><u>139,090</u></b>

For the three months ended March 31, 2015, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Executive Vice President and former Vice President of Operations. For the three months ended March 31, 2014, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Executive Vice President, former Vice President of Operations and former President in 2014.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 13 Commitments and contingency

#### Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2018. Additionally, the Company leases facilities in Albany, which expires on March 31, 2016, 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, 2015, the Company incurred \$67,253 (three months ended March 31, 2014 - \$52,910) 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	197,208
Between 1 and 5 years	<u>284,504</u>
<b>Total</b>	<u><b>481,712</b></u>

### 14 Financial instruments and fair values

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

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

#### Interest rate risk

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

The line of credit facility has a fixed interest rate of 10% per annum and the term loans have a fixed interest rate of 9% and 10%. 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.

#### 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.



# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 14 Financial instruments and fair values (continued)

#### **Credit risk** (continued)

##### *Receivables related to franchising and licensing*

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2015, 6 franchisees accounted for 56% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2014 - 6 franchisees accounted for 72%). For the three months ended March 31, 2015, 3 franchisees accounted for 33% of the Company's revenues related to franchising and licensing (December 31, 2014 - 3 franchisees accounted for 28%). As of March 31, 2015, 4% of accounts and notes receivable were over 90 days old and related to one franchisee (December 31, 2014 - 3%).

##### *Receivables related to corporate operations*

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At March 31, 2015 and December 31, 2014, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2015 and March 31, 2014, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2015, 6% of accounts receivable in this category was over 90 days old (December 31, 2014 - 4%). The Company has not recorded an allowance for credit losses from receivables related to corporate operations (December 31, 2014 - \$2,417). The Company does not have any reason to believe it will not collect all remaining balances.

#### **Foreign exchange risk**

Subsidiaries of the Company have loans denominated in a currency other than their functional currency of CAD\$590,391 as at March 31, 2015 (December 31, 2014 - CAD\$596,313). The Company realized a foreign exchange gain of \$561,664 (March 31, 2014 - \$205,279) during the three months ended March 31, 2015. Based on the financial liability held in the United States and denominated in CAD at March 31, 2015, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately \$23,306 (December 31, 2014 - \$25,639).

#### **Liquidity risk**

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of \$8.5 million at March 31, 2015. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 14 Financial instruments and fair values (continued)

#### Liquidity risk (continued)

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 \$1,727,753 at March 31, 2015 (December 31, 2014 - \$1,595,309), are due to be settled within one year from the date of the Statement of Financial Position. The Company has current assets of \$1,327,369 at March 31, 2015 (December 31, 2014 - \$1,199,402) including a cash balance of \$310,288 (December 31, 2014 - \$366,211).

<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>
Accounts payable and accrued liabilities	670,406	–	–	–
Notes payable	29,949	49,981	–	–
Convertible debentures	–	–	343,971	–
Long-term debt	146,680	452,644	7,286,635	–

<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>
Notes payable	1,225	944	–	–
Convertible debentures	–	28,125	56,250	–
Long-term debt	315,432	447,708	1,322,169	–

#### 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>
Accounts payable and accrued liabilities	670,406	–	–	–
Notes payable	31,174	50,925	–	–
Convertible debentures	–	28,125	400,221	–
Long-term debt	462,112	900,352	8,608,804	–

#### Fair value of financial instruments

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 14 Financial instruments and fair values (continued)

#### Fair value of financial instruments (continued)

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, 2015, amounted to \$243,870 (December 31, 2014 - \$244,071) with fair value estimated to be \$235,085 (December 31, 2014 - \$201,532), respectively.

### 15 Capital management

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

### 16 Segment reporting

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

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 16 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, 2015</b>	<b>March 31, 2015</b>	<b>March 31, 2015</b>	<b>March 31, 2015</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	100,981	153,632	55,675	310,288
Cash attributable to the Ad Fund	69,271	–	–	69,271
Trade receivables	132,975	538,727	23,988	695,690
Prepaid expenses	58,497	58,251	37,332	154,080
Notes receivable from franchisees	98,040	–	–	98,040
<b>Total current assets</b>	<b>459,764</b>	<b>750,610</b>	<b>116,995</b>	<b>1,327,369</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	145,830	–	–	145,830
Equipment	–	2,731,774	3,170	2,734,944
Intangible assets	751,265	1,989,717	773,080	3,514,062
Goodwill	–	1,733,602	–	1,733,602
<b>Total assets</b>	<b>1,356,859</b>	<b>7,205,703</b>	<b>893,244</b>	<b>9,455,807</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	201,310	402,698	263,340	867,348
Current portion of notes payable	–	79,930	–	79,930
Current portion of long-term debt	–	780,475	–	780,475
<b>Total current liabilities</b>	<b>201,310</b>	<b>1,263,103</b>	<b>263,340</b>	<b>1,727,753</b>
<b>Non-current liabilities</b>				
Long-term debt	–	7,092,603	–	7,092,603
Convertible debenture	–	–	343,971	343,971
Deferred tax liability	158,340	–	–	158,340
<b>Total liabilities</b>	<b>359,650</b>	<b>8,355,706</b>	<b>607,311</b>	<b>9,322,667</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 16 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	December 31, 2014	December 31, 2014	December 31, 2014	December 31, 2014
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	77,662	98,190	190,359	366,211
Cash attributable to the Ad Fund	80,102	—	—	80,102
Trade receivables	118,200	449,951	19,867	588,018
Prepaid expenses	4,420	52,801	23,620	80,841
Notes receivable from franchisees	84,230	—	—	84,230
<b>Total current assets</b>	<b>364,614</b>	<b>600,942</b>	<b>233,846</b>	<b>1,199,402</b>
<b>Non-current assets</b>				
Notes receivable from franchisees	159,841	—	—	159,841
Equipment	—	2,589,812	4,664	2,594,476
Intangible assets	748,747	1,916,619	839,341	3,504,707
Goodwill	—	1,591,079	—	1,591,079
<b>Total assets</b>	<b>1,273,202</b>	<b>6,698,452</b>	<b>1,077,851</b>	<b>9,049,505</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	131,784	280,013	319,559	731,356
Current portion of notes payable	2,081	100,371	—	102,452
Current portion of long-term debt	—	761,501	—	761,501
<b>Total current liabilities</b>	<b>133,865</b>	<b>1,141,885</b>	<b>319,559</b>	<b>1,595,309</b>
<b>Non-current liabilities</b>				
Long-term debt	—	7,323,762	—	7,323,762
Convertible debenture	—	—	342,645	342,645
Deferred tax liability	154,076	—	—	154,076
<b>Total liabilities</b>	<b>287,941</b>	<b>8,465,647</b>	<b>662,204</b>	<b>9,415,792</b>

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 16 Segment reporting (continued)

#### Geographic information

	March 31, 2015	December 31, 2014
<b>Canada</b>	\$	\$
Equipment	3,170	4,664
Intangible assets	773,080	839,341
<b>United States</b>		
Notes receivable from franchisees	243,870	244,071
Equipment	2,731,774	2,589,812
Intangible assets	2,740,982	2,665,366
Goodwill	1,733,602	1,591,079
<b>Total</b>		
Notes receivable from franchisees	243,870	244,071
Equipment	2,734,944	2,594,476
Intangible assets	3,514,062	3,504,707
Goodwill	1,733,602	1,591,079

#### Revenue

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

For the three months ended,	March 31, 2015	March 31, 2014
	\$	\$
<b>United States</b>		
Royalties	371,992	258,058
Franchise fees	24,766	65,563
Shredding services	1,136,674	952,301
Sale of paper products	237,388	205,433
<b>Middle East</b>		
License fees	2,130	4,225

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

### 16 Segment reporting (continued)

#### Net income by operating segment

Total net income by reportable operating segment is as follows:

	For the three months ended March 31, 2015			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	398,888	1,374,062	–	1,772,950
Direct costs	–	(798,527)	–	(798,527)
Corporate overhead	(219,306)	(94,575)	(89,556)	(403,432)
Depreciation and amortization	(149,099)	(199,333)	–	(348,432)
Foreign exchange gain	–	–	561,664	561,664
Gain on sale of assets	–	3,096	–	3,096
Interest expense	–	(180,649)	(8,220)	(188,869)
Interest income	2,282	–	–	2,282
Income tax recovery	5,111	–	–	5,111
Net income	37,876	104,074	463,888	605,838

	For the three months ended March 31, 2014			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	327,847	1,157,733	–	1,485,580
Direct costs	–	(640,594)	–	(640,594)
Corporate overhead	(213,250)	(117,076)	(77,999)	(408,325)
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

### 17 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. Included in accounts receivable at March 31, 2015, is \$163 (March 31, 2014 - \$nil) due from this franchise. During the three months ended March 31, 2015, the Company earned royalty and service fees amounting to \$36,248 (2014 - \$25,078) from this franchise.

# RediShred Capital Corp.

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

(expressed in Canadian dollars)

---

### 17 Related party balances and transactions (continued)

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, 2015 are insurance premium amounts of \$4,575 (three months ended March 31, 2014 - \$4,592) paid to an insurance brokerage firm, managed by a Director of the Company.

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

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

- (a) A 5 year loan and security agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The estimated fair value of the loan on March 31, 2015 is CAD\$575,750;
- (b) A 5 year loan and security agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The estimated fair value of the loan on March 31, 2015 is CAD\$94,995 (US\$75,000);
- (c) A 4 year loan and security agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on March 31, 2015 is CAD\$64,640;
- (d) A 4 year loan and security agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum and the estimated fair value of the loan on March 31, 2015 is CAD\$40,937 (US\$32,320); 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 CAD\$469,001 at March 31, 2015. The value of the loan on March 31, 2015 is CAD\$412,273 (US\$325,496).