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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, 2012 and 2011. Additional information on Redishred, including these documents and the Company's 2012 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<sup>th</sup>, 2013.

## **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 sell the Miami business at the valuation level forecasted and within the next 12 months.

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 on the previous page 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 2012 and 2011.
- EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is a performance measure used to assess our 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 the 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 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, 2012, there were 23 operating Proshred locations in the United States comprised of 100.9 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).

During the year ended December 31, 2012, the Company announced the addition of 3 new franchisees to the system, which include Chicago North, Illinois; Houston, Texas; and Richmond, Virginia. These franchises comprise 3.4, 5.7 and 3.2 territories respectively. The Chicago North franchise commenced operations in September 2012, the Houston franchise commenced operations in November 2012 and the Richmond franchise commenced operation subsequent to year-end in March 2013.

During the year ended December 31, 2012, the Company purchased the Proshred New York City and the Proshred Miami franchises from existing franchisees. The Proshred New York City business was acquired on January 1, 2012 and the Proshred Miami business was acquired on July 13, 2012. The Company operates the Syracuse, Albany, Milwaukee and New York City locations directly. The Miami business is currently jointly operated by one of the Company's franchise locations (refer to 'Transactions with Related Parties' and 'Miami Operations'). The Company has committed to a plan to sell the Miami business and is reviewing a Letter of Intent to purchase the business by the franchise in Tampa Bay, Florida.

As of December 31, 2012, the Company also has one international master license to operate in the Middle East<sup>1</sup>. There were 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.

**REDISHRED CAPITAL CORP.  
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The Company's location list is as follows:

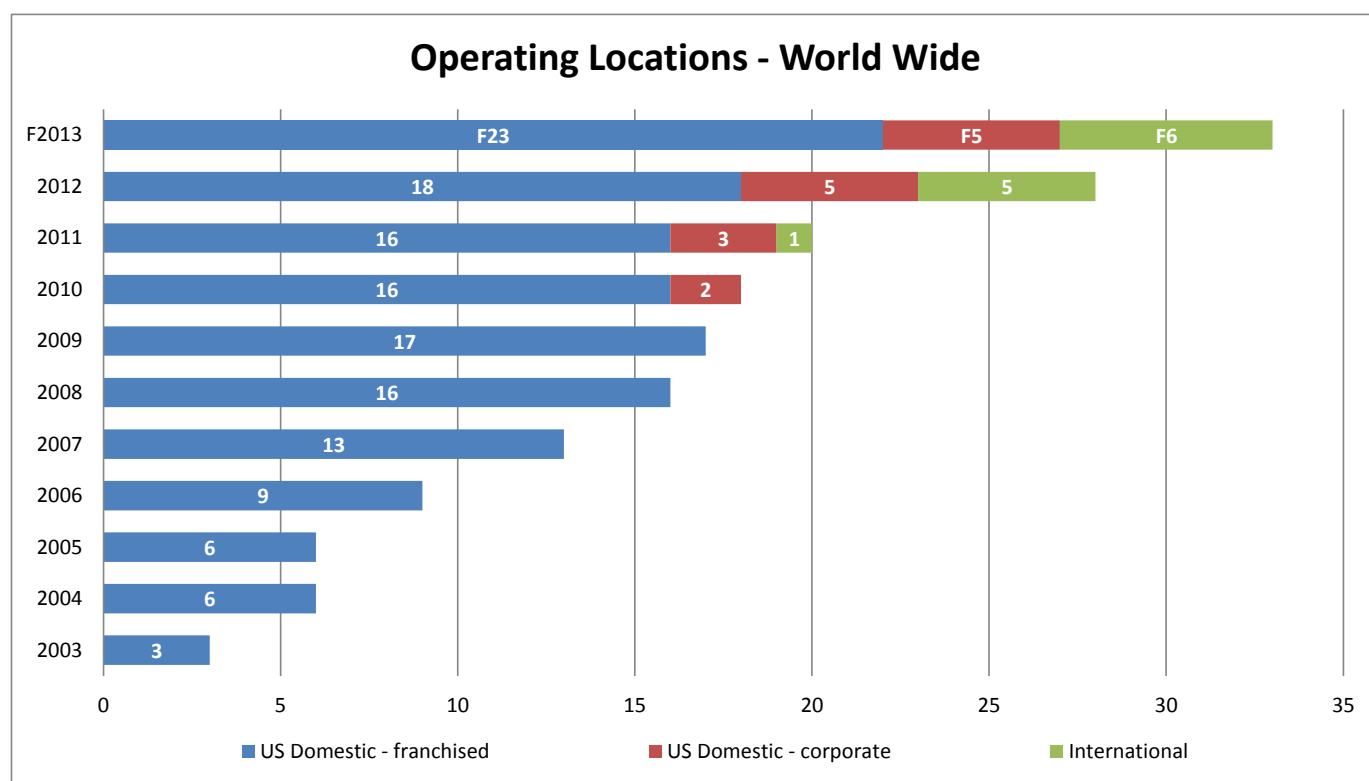
<b>No.</b>	<b>Franchise locations</b>	<b>Operating since</b>	<b>Territories</b>
1.	SPRINGFIELD, MA	June 2003	2.3
2.	TAMPA BAY, FL	March 2004	2.1
3.	DENVER, CO	August 2004	3.8
4.	CHARLOTTE, NC	April 2006	3.3
5.	PHILADELPHIA, PA	September 2006	5.0
6.	KANSAS CITY, MO	December 2006	4.0
7.	NEW HAVEN, CT	April 2007	3.6
8.	CHICAGO, IL (includes North and South Territories)	April 2007	7.2
9.	RALEIGH, NC	June 2007	4.7
10.	BALTIMORE, MD (includes Washington, DC)	November 2007	6.7
11.	N. VIRGINIA, VA	July 2008	3.8
12.	ORANGE COUNTY, CA	September 2009	3.0
13.	SAN DIEGO, CA	October 2010	2.9
14.	INDIANAPOLIS, IN	June 2011	2.6
15.	ATLANTA, GA	January 2012	6.3
16.	PHOENIX, AZ	January 2012	4.2
17.	DALLAS, TX	March 2012	6.3
18.	HOUSTON, TX	November 2012	5.7
<i>Franchised territories in operation</i>			<u>77.5</u>
<b>No.</b>	<b>Corporate locations</b>	<b>Operating since</b>	<b>Territories</b>
19.	SYRACUSE, NY	March 2004 <sup>(1)</sup>	2.5
20.	ALBANY, NY	April 2003 <sup>(1)</sup>	1.2
21.	MILWAUKEE, WI	August 2003 <sup>(1)</sup>	2.7
22.	NEW YORK CITY, NY (includes Long Island, NY)	January 2008 <sup>(1)</sup>	11.3
23.	MIAMI, FL	June 2008 <sup>(1)</sup>	5.7
<i>Corporate territories in operation</i>			<u>23.4</u>
<b>No.</b>	<b>Pending franchise locations</b>	<b>Expected operation</b>	<b>Territories</b>
1	RICHMOND, VA	March 2013	3.2
<b>Grand Total</b>			<u><b>104.1</b></u>

(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 is operated by the Company's franchise location in Tampa Bay, FL, since July 13, 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.

**Performance Compared to 2012 Goals and Objectives**

In the Company's 2011 Annual Report, management stated its 2012 goals and objectives. A review of the Company's performance in meeting these goals and objectives is included below:

<b>2012 Goals and Objectives</b>	<b>Performance during the year ended December 31, 2012</b>	<b>Comments</b>
<p>Grow system sales from existing locations by 10% to \$16.4M USD compared to 2011.</p> <p>Due to the decline in the paper prices, at September 30, 2012, the Company revised its goal to \$14.6M USD.</p>	<p>During 2012, in comparison to 2011, Redishred's:</p> <ul style="list-style-type: none"> <li>• scheduled system sales grew by 10% (same store sales grew by 9%);</li> <li>• unscheduled system sales grew by 22% (same store sales grew by 21%);</li> <li>• recycling system sales declined by 33% as a result of the drastic paper price decline in the 4<sup>th</sup> quarter of 2011 (same store sales declined by 34%).</li> </ul> <p>The Company experienced growth of 14% in service related system sales during the year ended December 31, 2012 when compared to the year ended December 31, 2011.</p> <p>The price of recycled paper products declined significantly in 2012 in comparison to 2011, resulting in overall system sales of \$14.9M, consistent with the prior year total system sales.</p>	<p><b>Redishred attained the revised annual goal.</b></p>
<p>Award at least four franchise locations.</p> <p>At September 30, 2012, the Company revised its goal to awarding at least three franchise locations.</p>	<p>During 2012, Redishred awarded three new franchise locations. On January 31, 2012, Redishred awarded the Chicago North, IL franchise to its Chicago South franchisee. On August 13, 2012, Redishred awarded the Houston, TX franchise. On October 24, 2012, the Company awarded the Richmond, Virginia franchise.</p>	<p><b>Redishred attained the revised annual goal.</b></p>
<p>Conduct three acquisitions in 2012.</p> <p>At September 30, 2012, the Company revised its goal to conducting two acquisitions in 2012.</p>	<p>Redishred acquired the New York City franchise from an existing franchisee in the first quarter of 2012. On July 13, 2012, Redishred acquired the Miami franchise from an existing franchisee.</p>	<p><b>Redishred attained the revised annual goal.</b></p>
<p>Achieve a minimum of \$1 million in EBITDA from existing Corporate locations (Syracuse, Albany, Milwaukee and New York City).</p> <p>Due to continued weakness in the paper markets, at September 30, 2012, the Company revised its goal to a minimum of \$600,000 in EBITDA from existing Corporate locations.</p>	<p>Redishred earned \$603,582 in EBITDA from its Corporate locations during the year ended December 31, 2012.</p>	<p><b>Redishred attained the revised annual goal.</b></p>

**Goals and Objectives for 2013**

Management has set new objectives for 2013 as follows:

1. Grow system sales from all locations by 10% over fiscal 2012 to a total of \$16.4 million USD.
2. Award at least four franchise locations.
3. Generate \$800,000 in earnings before interest, taxes, depreciation and amortization ("EBITDA") from current corporate locations, Syracuse, Albany, Milwaukee and NYC.

<b>2013 Goals and Objectives</b>	<b>Strategy for Achieving Goals</b>
Grow system sales from all locations by 10% to \$16.4M USD compared to 2012.	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.
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 \$800,000 in EBITDA from existing Corporate locations (Syracuse, Albany, Milwaukee and New York City).	Management will focus on three key areas to drive profitability, (1) increased sales and marketing activities in the local markets (2) continued focus on route optimization using GPS and Handheld technologies and (3) overall cost reductions, including the elimination of the baling facility in New York City.



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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, 2012, 2011 and 2010.

<i>(in CDN except where noted)</i>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	\$	\$	
<b>Franchise sales and revenue data:</b>			
System sales (USD)	<b><u>14,890,134</u></b>	<u>14,936,708</u>	<u>12,937,195</u>
<b>Total Revenue</b>	<b>4,059,977</b>	3,379,383	2,003,763
Franchise and license fees	<b>304,478</b>	433,396	355,413
Royalties and service fees	<b>823,577</b>	934,192	934,639
<b>Franchise related revenue</b>	<b>1,128,055</b>	1,367,588	1,290,052
<b>Corporate location data:</b>			
Corporate location revenue	<b>2,931,922</b>	2,011,795	713,711
Corporate location operating costs	<b>(2,328,340)</b>	(1,230,143)	(491,558)
<b>Corporate location EBITDA</b>	<b>603,582</b>	781,652	222,153
Depreciation – tangible assets	<b>(231,018)</b>	(130,536)	(71,343)
Interest expense	<b>(591,983)</b>	(286,915)	(73,082)
<b>Operating income (loss) from corporate locations</b>	<b>(219,419)</b>	364,201	77,728
On-going operating costs	<b>(1,587,389)</b>	(1,608,218)	(1,571,196)
One-time costs <sup>(1)</sup>	<b>(231,498)</b>	(599,355)	-
Broker fees	<b>(68,089)</b>	(121,612)	(25,527)
Bad debt expense	<b>-</b>	(103,320)	(35,811)
Depreciation and amortization- equipment	<b>-</b>	(3,014)	(6,520)
<b>Total operating costs</b>	<b>(1,886,976)</b>	(2,435,519)	(1,639,054)
<b>Operating loss</b>	<b>(978,326)</b>	(703,730)	(278,725)
<b>Operating loss – excluding one-time costs</b>	<b>(746,829)</b>	(104,375)	(278,725)
<b>Net loss excluding reversals of impairment<sup>(2)</sup></b>	<b>(2,802,536)</b>	(1,044,314)	(274,100)
<b>Net loss – excluding one-time costs<sup>(2)</sup></b>	<b>(1,459,444)</b>	(444,959)	(274,100)
<b>Loss per share</b>	<b>(0.10)</b>	(0.02)	(0.01)

(1) One-time costs incurred in 2012 and 2011 are primarily legal fees related to the defence of the current franchisee litigation against the Company. As of December 31, 2012, only one franchise remained in the litigation.

(2) For the year ended December 31, 2012, net loss excluding reversals of impairment and net loss – excluding one-time costs includes amortization of intangible assets of \$751,517 (December 31, 2011 - \$496,694). Net loss – excluding one-time costs excludes \$712,566 of the loss on settlement of the pre-existing relationships related to the NYC and Miami acquisitions, one-time costs related to the franchisee litigation of \$160,248, impairment of goodwill and intangible assets of \$545,008 and the gain on re-acquired rights of \$138,439. For the year ended December 31, 2011, net loss excluding reversals of impairment and net loss – excluding one-time costs excludes \$589,231 of reversal of impairment.

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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 four corporate locations in Syracuse, Albany, Milwaukee and New York City. 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.

The Company posted a net loss of \$2,802,536 for the year ended December 31, 2012. The net loss was driven by the following major factors:

- (a) the settlement of the pre-existing franchise relationships as part of the New York City and Miami acquisitions of \$712,567;
- (b) the impairment of goodwill and other intangible assets of \$545,008;
- (c) one-time legal costs associated with the defence of the past and current litigation of \$160,248;
- (d) increased amortization for intangible assets due to the reversal of a portion of the previous impairment recorded at January 1, 2010 of \$186,112;
- (e) increased amortization on tangible and intangible corporate location assets due to the acquisition of the New York City business of \$162,100; and
- (f) un-realized foreign exchange loss of \$132,505 due to the appreciation of the Canadian dollar.

These factors resulted in \$1,898,540 of the total net loss or 68% of the total net loss. On July 13, 2012, in conjunction with the purchase of the Proshred Miami business, the Miami franchisee permanently withdrew from the legal complaint. As of April 30<sup>th</sup>, 2013, one franchisee remains in the litigation.

## Franchising & Licensing

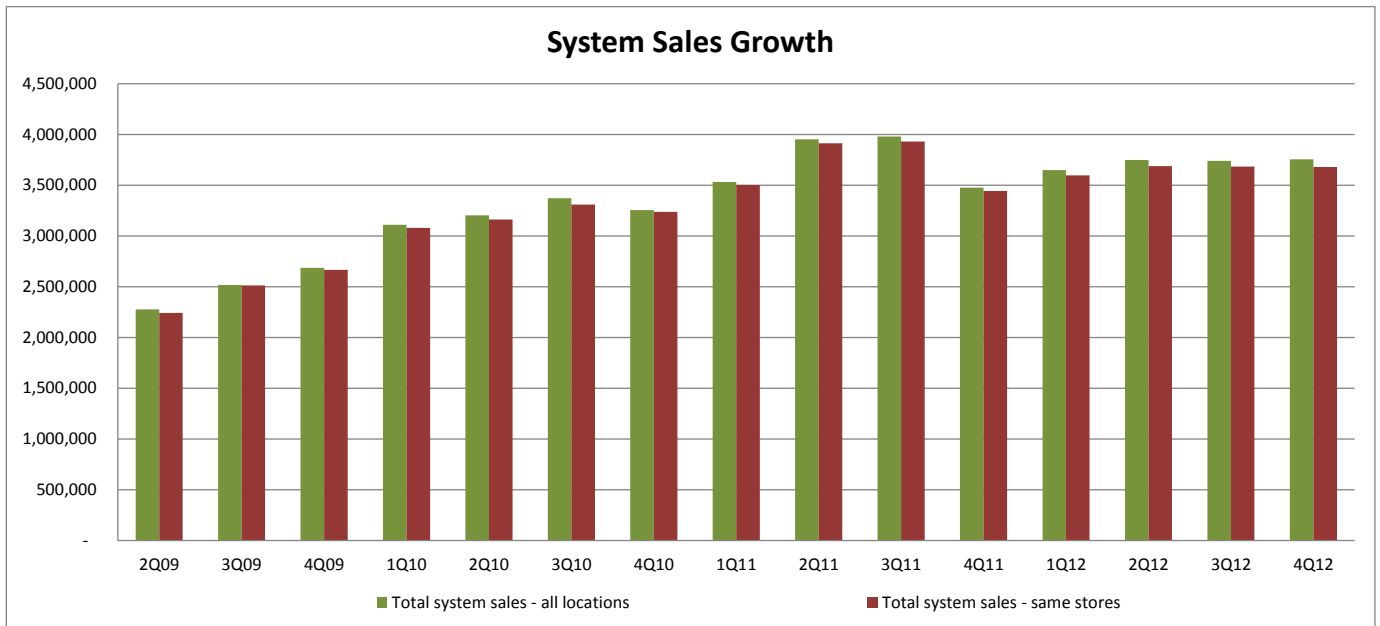
### System Sales

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		
	2012	2011	%Ch	2012	2011	%Ch
Total operating locations at period end; US and International	<b>28</b>	21	33%	<b>28</b>	21	33%
Operating territories (US only)	<b>100.9</b>	75	35%	<b>100.9</b>	75	35%
Total system sales (USD)	<b>\$ 3,754,629</b>	\$ 3,474,657	8%	<b>\$ 14,890,134</b>	\$ 14,936,708	0%
Total system sales (CDN)	<b>\$ 3,721,213</b>	\$ 3,555,269	5%	<b>\$ 14,884,178</b>	\$ 14,769,417	1%

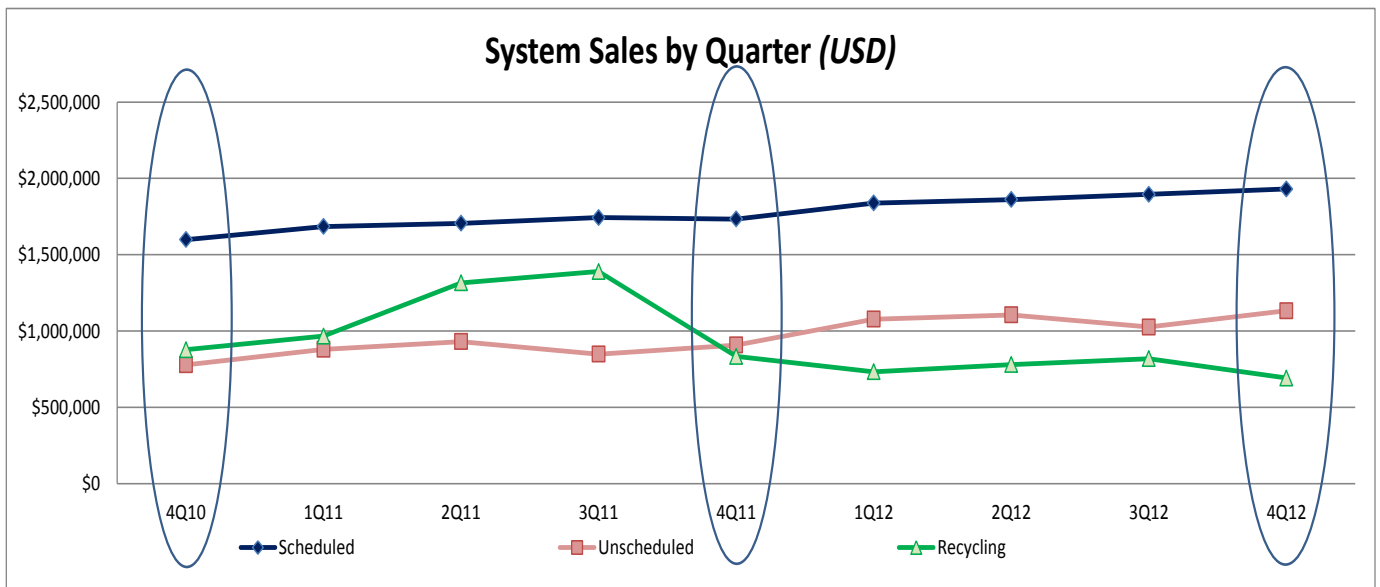
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The following chart illustrates system sales growth by quarter since 2009.



*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\$3,062,623 for the fourth quarter of 2012, growing by US\$421,282 or 16% over the fourth quarter of 2011. For the year ended December 31, 2012, service related system sales were US\$11,867,142, growing by US\$1,435,051 or 14% over the same period in 2011.

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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 the fourth quarter of 2012 versus the same quarter in 2011. For the three months ended December 31, 2012, scheduled sales reached a record high of US\$1,930,088.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Scheduled service sales (USD)	<b>1,930,088</b>	1,733,851	11%	<b>7,525,895</b>	6,866,676	10%
Same store scheduled service sales (USD)	<b>1,913,596</b>	1,731,837	10%	<b>7,484,062</b>	6,852,120	9%

Unscheduled sales:

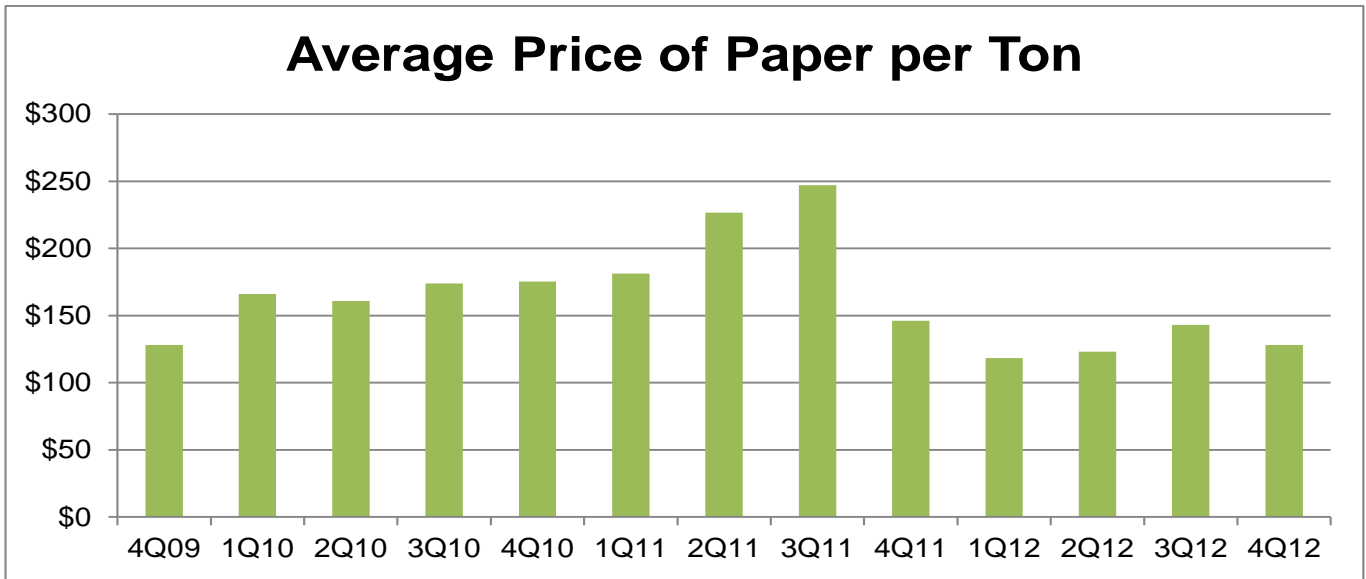
Unscheduled sales are defined as the revenue generated from customers who have one-time or seasonal requirements for document destruction. An example of unscheduled sales is when an accounting firm is required to destroy an abundance of confidential working papers and documents after their tax season. For the year ended December 31, 2012, unscheduled sales reached a high of \$4,341,247, growing 22% over the same period in 2011.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Unscheduled service sales (USD)	<b>1,132,535</b>	907,490	25%	<b>4,341,247</b>	3,565,415	22%
Same store unscheduled service sales (USD)	<b>1,093,003</b>	888,487	23%	<b>4,213,689</b>	3,492,915	21%

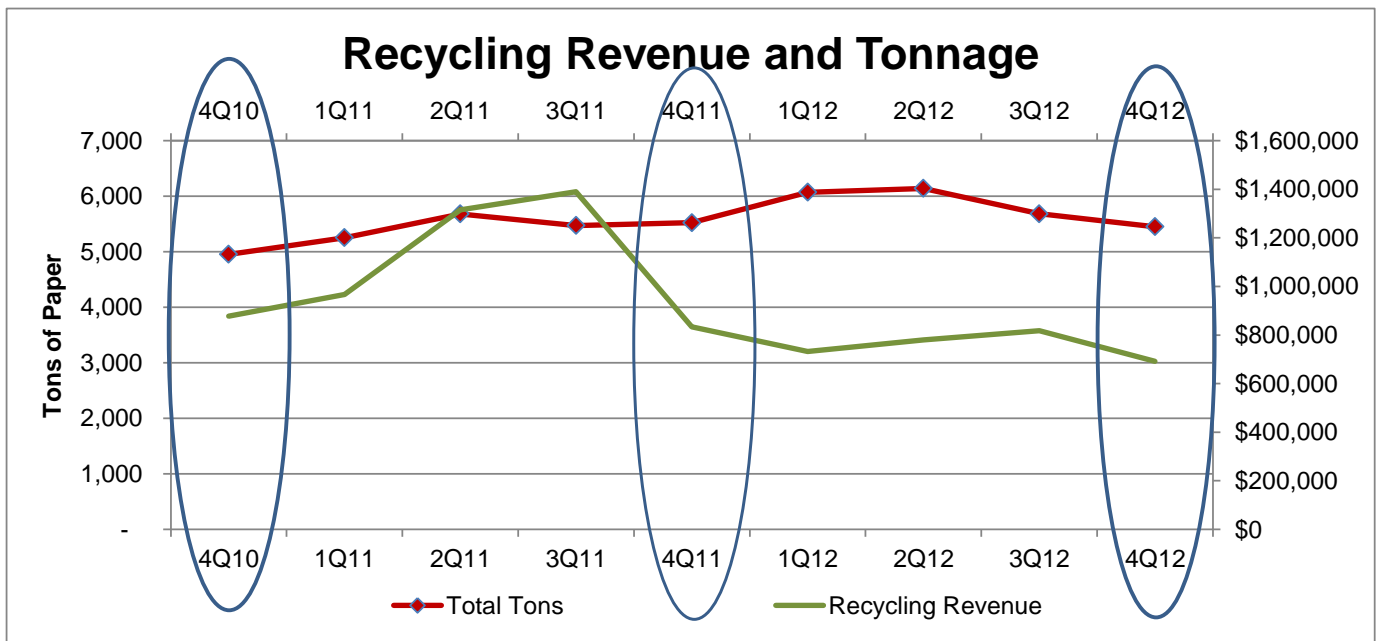
Recycling sales:

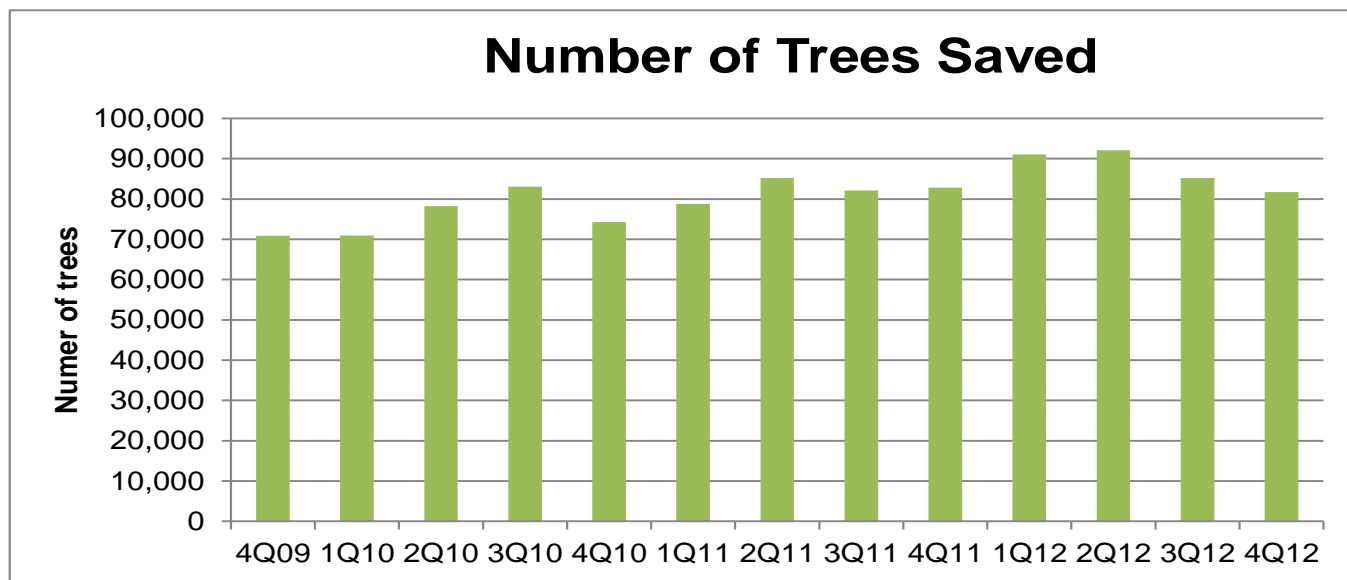
Recycling sales are defined as the revenue generated from the shredded paper and other material that is sold to various recycling companies. This sales category is driven by the price of paper, which is impacted by global supply and demand for shredded paper and the volume of paper recycled which is measured in tons. From the last quarter of 2009 to the third quarter of 2011, the price of recycled paper products increased and grew to near record highs of \$247 per ton, on average, in the Proshred system. From the third quarter of 2011 to the second quarter of 2012, paper prices decreased 52% to an average low of \$118 per ton, in the Proshred system. For the year ended December 31, 2012, the average price of paper in the Proshred system was \$126 per ton. During 2012, paper prices attained by the system decreased by 39% over the prior year. The decrease in paper prices has been slightly offset by a 6% increase in tonnage recycled within the system.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Recycling sales (USD)	<b>692,006</b>	833,316	(17)%	<b>3,022,992</b>	4,504,617	(33)%
Same store recycling sales (USD)	<b>671,368</b>	823,054	(18)%	<b>2,947,225</b>	4,443,324	(34)%



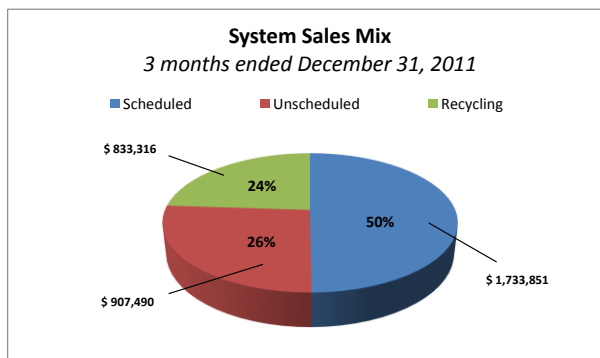
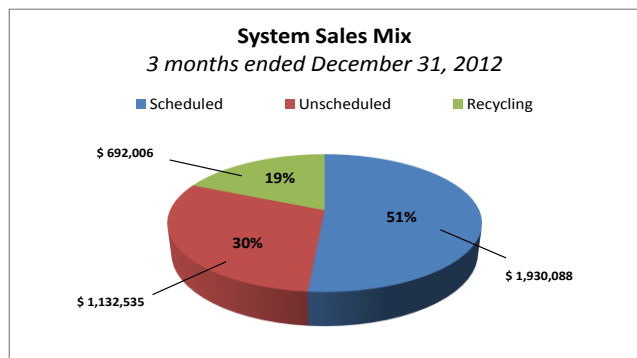
The system as a whole has continued to shred and recycle increased volumes of paper. During the year ended December 31, 2012, the system shredded and recycled 23,300 (December 31, 2011 – 21,900) tons of paper, an increase of 6% over the prior year, which equates to 350,000 (December 31, 2011 - 328,000) trees being saved.



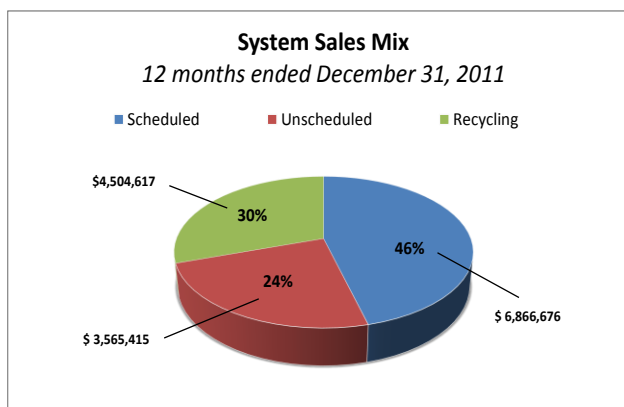
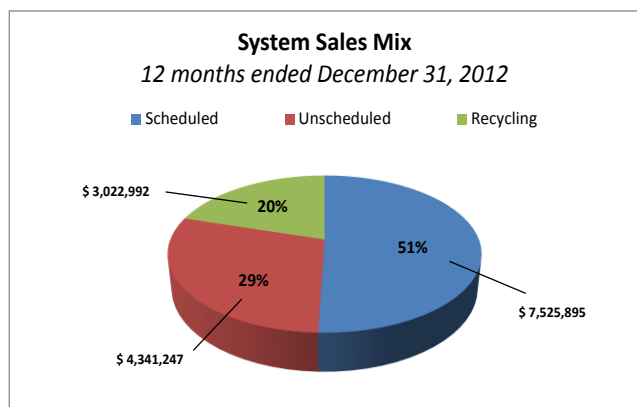


Mix of business:

Scheduled sales account for 51% of total sales for the quarter ended December 31, 2012 (December 31, 2011 – 50%). Unscheduled sales account for 30% of total sales for the three months ended December 31, 2012 (December 31, 2011 – 26%). Recycling sales account for 19% of total sales for the quarter ended December 31, 2012 (December 31, 2011 – 24%).



Scheduled sales account for 51% of total sales in 2012 (2011 – 46%). Unscheduled sales account for 29% of total sales in 2012 (2011 – 24%). Recycling sales account for 20% of total sales in 2012 (2011 – 30%).



**REDISHRED CAPITAL CORP.  
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**Total Franchising Revenues**

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	% Ch	<b>2012</b>	2011	%Ch
	<b>\$</b>	\$		<b>\$</b>	\$	
Franchise and license fees	<b>70,595</b>	371,355	(81)%	<b>304,478</b>	433,396	(30)%
Royalty and service fees	<b>210,420</b>	229,059	(8)%	<b>823,577</b>	934,192	(12)%
Total franchise and license related revenue	<b>281,015</b>	600,414	(53)%	<b>1,128,055</b>	1,367,588	(18)%

During the fourth quarter of 2012, the Company entered into an agreement with a new franchisee to operate a "Proshred" shredding franchise in the Richmond, Virginia market. As a result, the Company earned US\$66,920 in franchise fees. Royalties and service fees are charged for use of the trademarks and system, franchise and license fee revenue is generated when a franchise or license is awarded and training is completed. Royalty and service fees earned in 2012 were lower than in 2011 due to the conversion of the New York City franchise location to a corporate location as well as the 39% decline in paper prices which resulted in lower system sales. The royalty and service fees include royalties and service fees from the Miami business (refer to 'Miami Operation').

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, 2012, royalty and fee revenues were US\$281,127. For the year ended December 31, 2012, royalty and fee revenues were US\$1,128,507.

**Operating Expenses**

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	<b>\$</b>	\$		<b>\$</b>	\$	
Salaries	<b>217,731</b>	212,286	(3)%	<b>817,856</b>	842,155	5%
General, administrative and marketing – on-going	<b>224,041</b>	226,427	1%	<b>769,533</b>	766,063	0%
General, administrative and marketing – one-time costs	<b>22,222</b>	151,521	85%	<b>231,498</b>	599,355	61%
Broker fees	<b>24,139</b>	98,197	75%	<b>68,089</b>	121,612	44%
Bad debt expense	–	59,341	100%	–	103,320	100%
Depreciation and amortization - equipment	–	(2,539)	100%	–	3,014	100%
Total operating expenses	<b>488,133</b>	745,237	34%	<b>1,886,976</b>	2,435,519	23%

Operating expenses for the year ended December 31, 2012 include expenses to support 23 Proshred franchise and corporate 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. The Company continues to closely monitor and control all operating expenses. For the year ended December 31, 2012, one-time general, administration and marketing costs of \$160,248 relate to the defence of the past and current litigation and \$71,250 in severance related to one terminated employee. As of April 24<sup>th</sup>, 2013, one franchisee remains a party to the legal complaint.

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

Depreciation and amortization relate to the purchase of Professional Shredding Corporation (“PSC”) and the Proshred franchise business in 2008. For the year ended December 31, 2012, depreciation and amortization of intangibles related to the franchise and license operations increased over the prior year due to the reversal of a portion of impairment as at December 31, 2011. An impairment loss was recorded at January 1, 2010 with the adoption of IFRS. Depreciation and amortization are as follows:

	3 months ended December 31			12 months ended December 31		
	2012	2011	%Ch	2012	2011	%Ch
	\$	\$		\$	\$	
Depreciation and amortization – equipment	–	(2,539)	(100)%	–	3,014	100%
Depreciation and amortization – intangibles	<b>168,295</b>	263,529	36%	<b>524,253</b>	338,141	(55)%
Depreciation and amortization	<b>168,295</b>	260,990	36%	<b>524,253</b>	341,155	(55)%

**Corporate Operations**

The Company operates four shredding operations in Syracuse, Albany, Milwaukee, and New York City. 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.’

	3 months ended December 31				12 months ended December 31			
	2012	% of revenue	2011 <sup>1</sup>	% of revenue	2012	% of revenue	2011 <sup>1</sup>	% of revenue
	\$		\$		\$		\$	
Revenue:								
Shredding service	<b>518,208</b>	81%	368,038	76%	<b>2,363,002</b>	81%	1,437,817	71%
Recycling	<b>120,586</b>	19%	115,145	24%	<b>568,920</b>	19%	573,978	29%
Total revenue	<b>638,794</b>	100%	483,183	100%	<b>2,931,922</b>	100%	2,011,795	100%
Operating costs	<b>509,561</b>	80%	316,774	66%	<b>2,328,340</b>	79%	1,230,143	61%
EBITDA	<b>129,233</b>	20%	166,411	34%	<b>603,582</b>	21%	781,652	39%
Depreciation – tangible assets	<b>39,044</b>	6%	34,271	7%	<b>231,018</b>	8%	130,536	6%
Interest expense	<b>161,915</b>	25%	78,240	16%	<b>591,983</b>	20%	286,915	14%
Corporate operating income	<b>(71,726)</b>	(11)%	53,900	11%	<b>(219,419)</b>	(7)%	364,201	18%

<sup>1</sup> The results for the three and twelve months ended December 31, 2011 include the corporate operations of Syracuse, Albany and Milwaukee.

Shredding service and recycling revenue is generated by our corporate locations in Albany, Syracuse, Milwaukee and New York City. Total shredding related revenue for the three and twelve months ended December 31, 2012 increased substantially over the prior comparative periods in 2011 due to the acquisition of the New York City franchise on January 1, 2012. These revenues are generated in US dollars which are translated at the average exchange rate for the period. For the three months ended December 31, 2012, shredding service and recycling revenues, denominated in US dollars were US\$640,140. For the twelve months ended December 31, 2012, shredding service and recycling revenues, denominated in US dollars were US\$2,932,150.



**REDISHRED CAPITAL CORP.  
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Operating costs increased over the same periods in the prior year as a result of higher truck repair and maintenance costs in New York City, which led to increased costs of operation and client service. In particular, the New York City location incurred \$142,623 in repairs and maintenance costs during the year ended December 31, 2012. During the third quarter, the Company replaced two of its existing shredding vehicles with new shredding equipment with a view to minimize service disruptions and repair costs. Subsequent to year-end, the Company replaced two more of its existing shredding vehicles with new shredding equipment. The Company continues to assess its truck fleet to ensure that customer service levels are maintained at high levels, and operational efficiencies are maximized. The corporate operations also experienced a 38% decline in recycling revenue as a result of the decline in paper prices. This resulted in a decrease of \$215,941 in recycling revenue for the three corporate locations in operation in 2011 and 2012.

**Same Store Corporate Operations**

Same store corporate operational results are indicators of performance of corporate stores that have been in the system for equivalent periods in 2012 and 2011. Same store corporate results include the operations of Syracuse, Albany and Milwaukee. For the three and twelve months ended December 31, 2012, recycling revenues decreased by 33% and 38% respectively as a result of the significant decline in paper prices. This led to the decline in EBITDA and operating income for both periods.

	<i>3 months ended December 31</i>				<i>12 months ended December 31</i>			
	<b>2012</b>	% of revenue	<b>2011</b>	% of revenue	<b>2012</b>	% of revenue	<b>2011</b>	% of revenue
	\$		\$		\$		\$	
Revenue:								
Shredding service	<b>300,260</b>	79%	368,038	76%	<b>1,377,672</b>	79%	1,437,817	71%
Recycling	<b>77,213</b>	21%	115,145	24%	<b>358,035</b>	21%	573,978	29%
Total revenue	<b>377,473</b>	100%	483,183	100%	<b>1,735,707</b>	100%	2,011,795	100%
Operating costs	<b>271,591</b>	72%	316,774	66%	<b>1,187,963</b>	68%	1,230,143	61%
EBITDA	<b>105,882</b>	28%	166,409	34%	<b>547,744</b>	32%	781,652	39%
Depreciation – tangible assets	<b>27,658</b>	7%	34,271	7%	<b>136,286</b>	8%	130,536	6%
Interest expense	<b>73,707</b>	20%	78,240	16%	<b>296,457</b>	17%	286,915	14%
Corporate operating income	<b>4,517</b>	1%	53,900	11%	<b>115,001</b>	7%	364,201	18%

**Miami Operations**

On December 31, 2012, the Company committed to a plan to sell the Miami business acquired on July 13, 2012. Given the geographic location of the business in relation to the Company's other corporate locations, the Company decided that the customers would be best served by locations in closer proximity to Miami. The Company also determined that the Miami location might also be required to invest in infrastructure and additional staff to run the operations effectively, which would result in lower cash flow margins. The Company is currently reviewing a Letter of Intent to purchase the business by the franchise in Tampa Bay, Florida. At December 31, 2012 the Company classified the Miami business as a disposal group held for sale and as a discontinued operation. The Company earns royalty and service fees on the gross Miami revenues and rental revenue for the use of the shredding truck. The Company incurs finance costs on the monthly truck loan payments and depreciation and amortization on the Miami tangible and intangible assets. The Company's rental revenues and expenses from the Miami business that are associated with the disposal group are presented below:

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	<b>For the year ended December 31, 2012</b>
	<b>\$</b>
Revenue	29,410
Expenses	
Operating expenses	(1,828)
Depreciation and amortization	(20,142)
	<u>(21,970)</u>
<b>Income from discontinued operations</b>	7,440
Finance costs	(3,164)
<b>Income for the year associated with the disposal group</b>	<u>4,276</u>

**Depreciation and Amortization**

Depreciation and amortization relates to the assets purchased in relation to the Syracuse, Albany, Milwaukee, New York City and Miami corporate locations. For the twelve months ended December 31, 2012, depreciation and amortization increased significantly as a result of the acquisition of the New York City and Miami locations.

Depreciation and amortization are as follows:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Depreciation and amortization – equipment	<b>39,044</b>	34,271	(14)%	<b>231,018</b>	130,536	(77)%
Depreciation and amortization – intangibles	<b>(25,640)</b>	41,021	163%	<b>227,264</b>	158,553	(43)%
Depreciation and amortization	<b>13,404</b>	75,292	(82)%	<b>458,282</b>	289,089	(59)%

**Operating loss (income)**

The Company posted an operating loss of \$278,851 for the three months ended December 31, 2012 and an operating loss of \$978,326 for the twelve months ended December 31, 2012. Immediately after the purchase of the New York City business, the Company commenced a review of the New York City operations. As a result, the Company implemented a cost reduction program, a truck refurbishment and replacement program and a route optimization program with a view towards improved results. For the twelve months ended December 31, 2012 the operating loss was also driven by professional fees of \$160,248 related to litigation. Furthermore, for the twelve months ended December 31, 2012, paper prices attained by the system decreased by 39% over the same period in 2011. This resulted in lower royalty revenue from franchisees and lower recycling revenue from corporate locations. During the year ended December 31, 2012, the Company generated revenues from awarding the North Chicago, IL franchise, the Houston, TX franchise and the Richmond, VA franchise.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Operating loss (income)	<b>278,851</b>	90,563	(207)%	<b>978,326</b>	703,730	(39)%
Operating loss (income) – excluding one-time costs	<b>256,629</b>	(60,602)	(524)%	<b>746,829</b>	104,375	(635)%

**REDISHRED CAPITAL CORP.  
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**Foreign exchange**

Foreign exchange (gain) loss was as follows:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Foreign exchange (gain) loss	<b>(78,112)</b>	(130,580)	(40)%	<b>132,505</b>	(66,163)	(300)%

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 is attributed to the use of the Company's line of credit facility which bears interest at 10% per annum as well as interest on the loan agreements, which bear interest at 6.502% to 8.14% per annum. All interest costs have been attributed to the acquisition of corporate locations, the financing of shredding vehicles and for general business purposes. Interest expense increased in 2012 as a result of the use of the line of credit to acquire the New York City business on January 1, 2012, the Miami business on July 13, 2012 and for general business purposes.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Interest income	<b>(925)</b>	(586)	58%	<b>(4,785)</b>	(2,946)	62%
Interest expense	<b>161,915</b>	78,240	(107)%	<b>591,983</b>	286,915	(106)%

**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, 2012, the Company booked a tax recovery of \$195,268. 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.

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

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**Net Loss (Income)**

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2012</b>	2011	%Ch	<b>2012</b>	2011	%Ch
	\$	\$		\$	\$	
Net loss (income)	<b>969,287</b>	(423,409)	(329)%	<b>2,802,536</b>	455,083	(516)%
Net loss (income) – excluding one-time costs	<b>179,960</b>	14,298	(1159)%	<b>1,459,444</b>	444,959	(228)%

The Company posted a net loss of \$2,802,536 for the year ended December 31, 2012. The net loss was driven by the following major factors:

- (a) the settlement of the pre-existing franchise relationships as part of the New York City and Miami acquisitions of \$712,567;
- (b) the impairment of goodwill and other intangible assets of \$545,008;
- (c) one-time legal costs associated with the defence of the past and current litigation of \$160,248;
- (d) increased amortization for intangible assets due to the reversal of a portion of the previous impairment recorded at January 1, 2010 of \$186,112;
- (e) increased amortization on tangible and intangible corporate location assets due to the acquisition of the New York City business of \$162,100; and
- (f) un-realized foreign exchange loss of \$132,505 due to the appreciation of the Canadian dollar.

These factors resulted in \$1,898,540 of the total net loss or 68% of the total net loss. On July 13, 2012, in conjunction with the purchase of the Proshred Miami business, the Miami franchisee permanently withdrew from the legal complaint. As of April 30<sup>th</sup>, 2013, one franchisee remains in the litigation.

Net loss (income) excluding one-time costs excludes the impairment of goodwill and other intangible assets, the loss on settlement of the pre-existing franchise relationships, the gain on re-acquired rights, the gain on the sale of assets and one-time legal costs associated with the defence of the past and current litigation and in severance related to one terminated employee.

**REDISHRED CAPITAL CORP.**  
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**Selected Quarterly Results**

<i>(in CDN except where noted)</i>	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
<b>System sales (USD)</b>	<b>3,754,629</b>	<b>3,738,939</b>	<b>3,751,552</b>	<b>3,622,856</b>	<b>3,474,657</b>	<b>3,978,639</b>	<b>3,951,035</b>	<b>3,530,693</b>
<b>Total Company revenue</b>	<b>919,809</b>	<b>1,073,287</b>	<b>965,831</b>	<b>1,101,050</b>	<b>1,083,597</b>	<b>757,315</b>	<b>827,278</b>	<b>711,192</b>
Franchise and license fees	70,595	140,033	-	93,487	371,381	-	61,989	-
Royalty and service fees	210,420	203,609	208,285	201,627	229,033	243,535	242,222	219,428
<b>Total revenue from franchising and licensing</b>	<b>281,015</b>	<b>343,642</b>	<b>208,285</b>	<b>295,114</b>	<b>600,414</b>	<b>243,535</b>	<b>304,211</b>	<b>219,428</b>
On-going operating costs	(441,772)	(343,330)	(420,524)	(402,470)	(495,516)	(409,908)	(391,075)	(415,641)
One-time costs	(22,222)	(62,223)	(55,254)	(69,262)	(151,525)	(315,541)	(87,680)	(44,609)
Broker fees	(24,139)	(43,950)	-	-	(98,197)	-	(23,406)	-
Total operating expenses	(488,133)	(449,503)	(475,778)	(471,732)	(745,237)	(725,449)	(502,161)	(460,250)
<b>Total operating income (loss) – franchising and licensing</b>	<b>(207,118)</b>	<b>(105,861)</b>	<b>(267,493)</b>	<b>(176,618)</b>	<b>(144,823)</b>	<b>(481,914)</b>	<b>(197,950)</b>	<b>(240,822)</b>
Corporate locations revenue	638,794	729,645	757,546	805,936	483,183	513,780	523,067	491,764
Corporate locations operating costs	(509,561)	(611,075)	(601,950)	(605,545)	(316,772)	(288,551)	(305,339)	(319,478)
<b>Corporate locations EBITDA</b>	<b>129,233</b>	<b>118,570</b>	<b>155,596</b>	<b>200,391</b>	<b>166,411</b>	<b>225,229</b>	<b>217,728</b>	<b>172,286</b>
Depreciation – tangible assets	(39,044)	(67,667)	(62,291)	(62,219)	(34,271)	(32,507)	(33,975)	(29,783)
Interest expense	(161,915)	(151,488)	(140,199)	(138,367)	(78,240)	(70,322)	(69,559)	(68,795)
<b>Total operating income (loss) - corporate</b>	<b>(71,726)</b>	<b>(100,585)</b>	<b>(47,894)</b>	<b>(195)</b>	<b>53,900</b>	<b>122,400</b>	<b>114,194</b>	<b>73,708</b>
<b>Total operating income (loss) – excluding one-time costs - Company</b>	<b>(256,629)</b>	<b>(144,223)</b>	<b>(260,133)</b>	<b>(107,551)</b>	<b>60,602</b>	<b>(43,973)</b>	<b>3,925</b>	<b>(122,505)</b>
Income (loss) before taxes from continuing operations	(1,127,760)	(598,083)	(434,076)	(842,160)	324,925	(312,605)	(245,583)	(330,908)
Profit (loss) attributable to owners of the parent	(969,287)	(591,396)	(418,385)	(823,470)	423,409	(309,946)	(244,583)	(325,908)
Profit (loss) excluding one-time costs	(179,960)	(561,643)	(363,131)	(403,508)	(14,297)	5,595	(156,903)	(281,299)
Basic and diluted net income (loss) per share	(.04)	(.02)	(.01)	(.03)	.00	(.01)	(.01)	(.01)

### **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.

From the last quarter of 2009 to the third quarter of 2011, the price of recycled paper products increased and grew to near record highs to \$247 per ton, on average, in the Proshred system. From the third quarter of 2011 to the second quarter of 2012, paper prices decreased 52% in the Proshred system. Refer to 'Recycling Sales' on page 12.

Royalty fees in 2012 decreased over the prior 2011 quarters as a result of the conversion of the New York City franchise location to a corporate location as well as the drastic decline in paper prices. This has been offset by the franchise fee earned related to awarding the North Chicago franchise in the first quarter of the year, the Houston, TX franchise in the third quarter of 2012 and the Richmond, VA franchise in the fourth quarter of the year.

The Company continues to closely monitor and control on-going operating costs across the Company. During the 4<sup>th</sup> quarter of 2011, on-going operating costs related to franchising and licensing include bad debt expense of \$59,341 related to one franchisee, which was recovered as a reduction to the purchase price for the Miami acquisition on July 13, 2012.

### **Balance Sheet**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	\$	\$
Working capital	<b>442,340</b>	2,982,235
Total assets <sup>(1)</sup>	<b>7,307,860</b>	8,939,765
Total liabilities <sup>(1)</sup>	<b>7,782,856</b>	6,660,196

(1) Total asset and liabilities include assets held for sale of \$286,952 and liabilities held for sale of \$105,178 related to the Miami business.

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.

The Company entered into two loan and security agreements in the third quarter of 2012 for a total amount of US\$246,556 in order to replace two of its existing shredding vehicles with new shredding equipment with a view to minimize service disruptions and repair costs. The Company also entered into a loan and security agreement on July 13, 2012 to finance a shredding vehicle in conjunction with the Miami acquisition. The current portion of these truck loans is included in current liabilities.

The Company entered into a line of credit facility on November 27, 2009 for a maximum amount of \$4 million, 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. During the year ended December 31, 2011, the line of credit was increased to \$5.37 million; all other terms of the agreement remained unchanged. During the year ended December 31, 2012, the line of credit limit was increased to \$6.03 million, repayable on November 27, 2014; all other terms of the agreement remained unchanged. 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 as well as for general business purposes.

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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 US\$266,636. The value of the loan on December 31, 2012 is \$171,356.

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 \$180,357. The value of the loan on December 31, 2012 is \$118,047.

On August 8, 2012, the Company entered into a loan and security agreement in the amount of US\$121,000, repayable with monthly blended payments of US\$2,379 maturing August 8, 2017. The loan bears interest at 6.506% per annum and is secured by one shredding vehicle with a carrying value of \$176,675. The value of the loan on December 31, 2012 is \$113,818.

The Company issued no dividends during the year.

### **Impairment of Goodwill and Intangible Assets**

The Company performs an impairment test of its tangible and intangible assets when there is an indication of permanent impairment, which includes indicators such as when actual sales are less than budgeted, profits are less than prior years' profits, and when significant events and circumstances indicate that the carrying amount may not be recoverable. At December 31, 2012, there was sufficient indication of impairment, such as significantly reduced recycling revenue driven by a massive drop in paper prices over 2011. This fact indicated that certain franchisees and corporate locations warranted an analysis to be performed. Based on the impairment review, the Company recorded an impairment loss of \$312,904 which was allocated to three of its' intangible assets including the Franchise agreements, the Proshred system and the Trademarks and intellectual property.

Goodwill is tested for impairment on an annual basis. Upon performing its annual goodwill impairment test, it was assessed that the goodwill related to the New York City business was impaired by \$232,103. The impairment loss was driven by poor operating performance in our New York City location driven by significant truck repairs related to legacy truck fleet. These truck issues caused significant truck down time, which negatively impacted sales and cash flows generated. The Company as at April 30, 2013 has fully replaced its New York City Fleet with new equipment.

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

The Company closely monitors its cash balances and cash flows generated from operations to meet its requirements. The Company has drawn from its line of credit in order to finance the purchase of its' corporate locations including Syracuse, Albany, Milwaukee in 2010 and New York City and Miami in 2012 as well as for general business purposes. The line of credit is repayable on November 27, 2014 with interest payments due semi-annually. 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 over the next twelve months.

On December 31, 2012, the Company obtained equity and debt funding 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. 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. The convertible debentures contain two components: liability and equity elements. The liability component net of transaction costs is \$333,119 and the equity component net of transaction costs is \$27,710.

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In addition, the Company has implemented a cost reduction strategy which includes the elimination of its baling facility in New York City and reducing costs throughout its corporate locations. Subsequent to year-end the Company sold its baling equipment and intends to sell the remaining equipment related to the baling facility closure. The Company has taken a strong sales focus approach and has dedicated sales leads in each corporate location to grow revenues and cash flows. The Company is also negotiating the sale of its Miami business as referred to under the section 'Miami Operations.'

The accounts payable, accrued liabilities and current portions of the notes payable and long-term debt of \$700,509 at December 31, 2012 (\$771,541 – December 31, 2011) 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 estimates that it will be necessary to award between two and four new franchise locations over the next 12 months in order to achieve a breakeven level of cash-flows. One-time franchise fees from new franchises have historically generated between \$35,000 and \$100,000 per franchise location. Additionally, new franchise locations add to recurring royalty and fee revenues.

The Company has the following lease commitments:

	\$
Less than 1 year	<b>227,599</b>
Between 1 and 5 years	<b>208,136</b>
More than 5 years	<u>—</u>
Total	<b>435,735</b>

### Capital Assets

<i>As at,</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>% Ch</u>
	\$	\$	
Net book value	<b>1,112,105</b>	565,294	97%

Capital assets (not including intangible assets) increased as a result of the acquisition of the New York City business on January 1, 2012. This increase was partially offset by additional depreciation expense. The Company acquired shredding vehicles, recycling equipment, computer equipment, furniture and shredding containers as part of the New York City. The Company currently has \$286,952 in capital assets held for sale related to the Miami acquired assets, which is not included in the figure above.

### 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, 2012, is \$1,945 (2011 - \$1,592) due from this franchise. During the year ended December 31, 2012, the Company earned royalty and service fees amounting to \$78,289 (2011 - \$87,165) from this franchise.

The Director's franchise is currently managing on the Company's behalf the Proshred Miami business acquired by the Company. The Company earned royalty and service fees of \$10,828 during the year ended December 31, 2012 from the Miami operations. Included in accounts receivable at December 31, 2012 is \$2,528 due from the Miami operations.



The Company has a line of credit facility with a related party entity, the Company's main shareholder, for a maximum of \$6.03 million, repayable on November 27, 2014, 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.

Included in selling, general and administrative expenses for the nine months ended December 31, 2012 are insurance premium amounts of \$13,037 (December 31, 2011 - \$15,317) paid to an insurance brokerage firm owned by a Director of the Company and \$3,142 in recruiting services paid to a recruiting firm owned by a Director of the Company.

## **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 or other currency. 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. Further details on pending or current litigation may be found in note 22 to the 2012 audited financial statements.

### **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*

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. 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 fair value less costs to sell and 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.

#### *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) Assets held for sale*

On December 31, 2012, the Company committed to a plan to sell the Miami business acquired on July 13, 2012 and therefore classified it as a disposal group held for sale. The Company considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons. The business is difficult to manage and support given its current geographical location relative to the Company's other corporate locations and head office. The Company would also be required to invest in infrastructure and additional staff to run the operations effectively, which would result in lower margins. The Company expects negotiations to be finalized and the sale to be completed by the summer of 2013.

*v) 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, 2012, there were 28,884,658 issued and outstanding common shares. As at December 31, 2012 there were 1,691,250 options to acquire common shares and 4,000,000 warrants to acquire common shares. During the year ended December 31, 2012, 978,750 stock options expired. There have been 992,500 stock options granted during the year ended December 31, 2012 (2011 – 150,000). On November 23, 2012 the Company granted options to certain Directors of the Company to purchase an aggregate of 975,000 common shares. The granting of new stock options follows the expiry of their original Stock Option Agreements dated August 29, 2007. The new stock option grants are on substantially the same terms as those that have expired. The options were granted at an exercise price of \$0.20, with 100% of the options vesting upon execution, and with a term of five years. As of April 30, 2013 there are 28,884,658 issued and outstanding common shares, 1,691,500 options to acquire common shares and 4,000,000 warrants to acquire common share.

## **Disclosure controls and procedures and internal controls**

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our disclosure controls and procedures as of December 31, 2012. They have concluded that our current disclosure controls and procedures are designed to provide, and do operate to provide, reasonable assurance that (i) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company's Disclosure Controls and Procedures and Internal Controls will prevent or detect all errors and all fraud. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected. During the year ended December 31, 2012, there have been no changes in the Company's policies and procedures and other processes that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Contingencies**

During the second quarter of 2010, four franchisees filed a complaint with the United States District Court, South District of New York, which management of the Company believes is without merit. The complaint has listed the following causes of action, (1) breach of contract and breach of the implied covenant of good faith and fair dealing by Proshred Franchising Corp. ("PFC"), (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. On July 13, 2012, in conjunction with the purchase of the Proshred Miami business, the Miami franchisee permanently withdrew from the legal complaint. As of December 31, 2012 and April 30, 2013, one franchisee remains in the legal complaint and three franchisees have permanently withdrawn.

The Company intends to vigorously defend against this remaining claim. The Company is strongly of the view that it (1) has not breached any contracts or agreements with its franchisees and has acted in good faith with all franchisees, (2) has not made any fraudulent misrepresentations to any franchisees, (3) has not made any negligent misrepresentations to any franchisees, and (4) has complied with all state laws as well as Federal Trade Commission rules and regulations regarding franchising.

The final outcome with respect to this claim cannot be predicted nor can the costs to defend this claim be quantified with certainty and therefore there can be no assurance that its resolution will not have an adverse effect on the Company's consolidated financial position. No amounts, other than legal costs, have been accrued in these consolidated financial statements relating to this claim.

Dated: April 30, 2013

