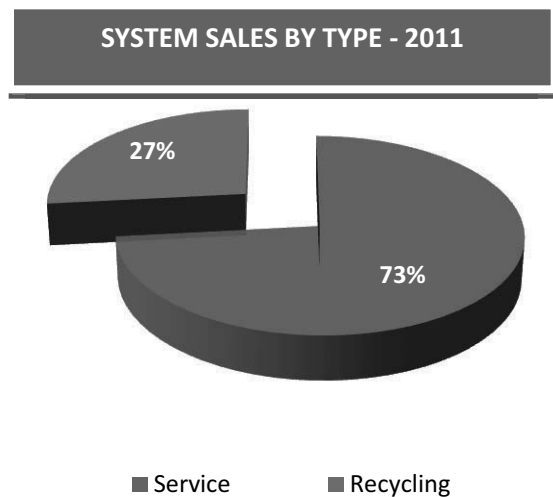
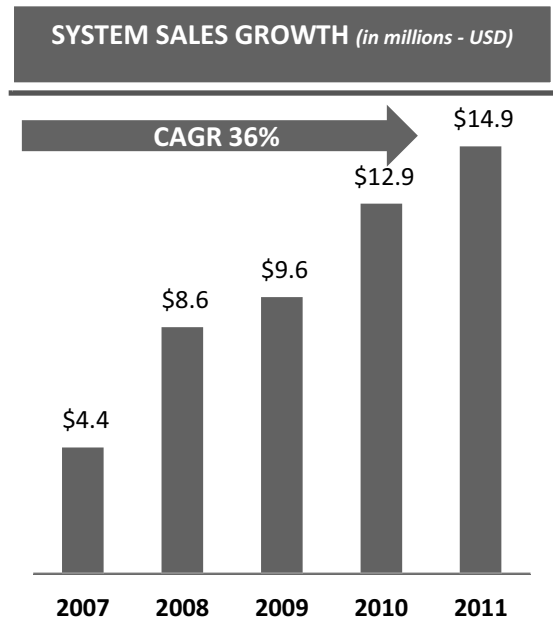




**ANNUAL REPORT**  
**2011**

**2011 HIGHLIGHTS**

- Increased year over year system sales by 15% and service related system sales by 10%, total system sales in 2011 were \$14.9 million.
- Generated \$71,000 in operating income before onetime costs during the fourth quarter of 2011.
- Generated \$2,012,000 in revenue and \$364,000 in corporate location income (including interest related to the purchase of the locations) for the 12 months ended December 31, 2011.
- Our Indianapolis, IN franchisee commenced operations during the second quarter of 2011. Awarded three new franchises in the fourth quarter of 2011 in Atlanta, GA, Phoenix, AZ and Dallas, TX.
- Opened first international location, in Doha, Qatar in the third quarter of 2011.





## TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the 2011 Annual Report for Redishred Capital Corp. ("Redishred" or "Company").

Redishred is a publicly traded investment company listed on the TSX Venture Exchange focused on the document shredding and recycling industry. Redishred currently owns and operates the **PROSHRED**<sup>®</sup> franchise system in the United States. **PROSHRED**<sup>®</sup> is the pioneer of on-site document destruction and has 19 locations in operation throughout the United States and one location in operation in the Middle East.

**PROSHRED**<sup>®</sup> is focused on maximizing revenue and profit growth by:

- (1) Supporting our franchisees by facilitating programs aimed at growing their sales and in turn the cash flows generated.
- (2) Expanding our location footprint in North America by way of continued franchising and by conducting strategically located acquisitions.
- (3) Increasing sales and marketing activities and focusing on route optimization in all locations.

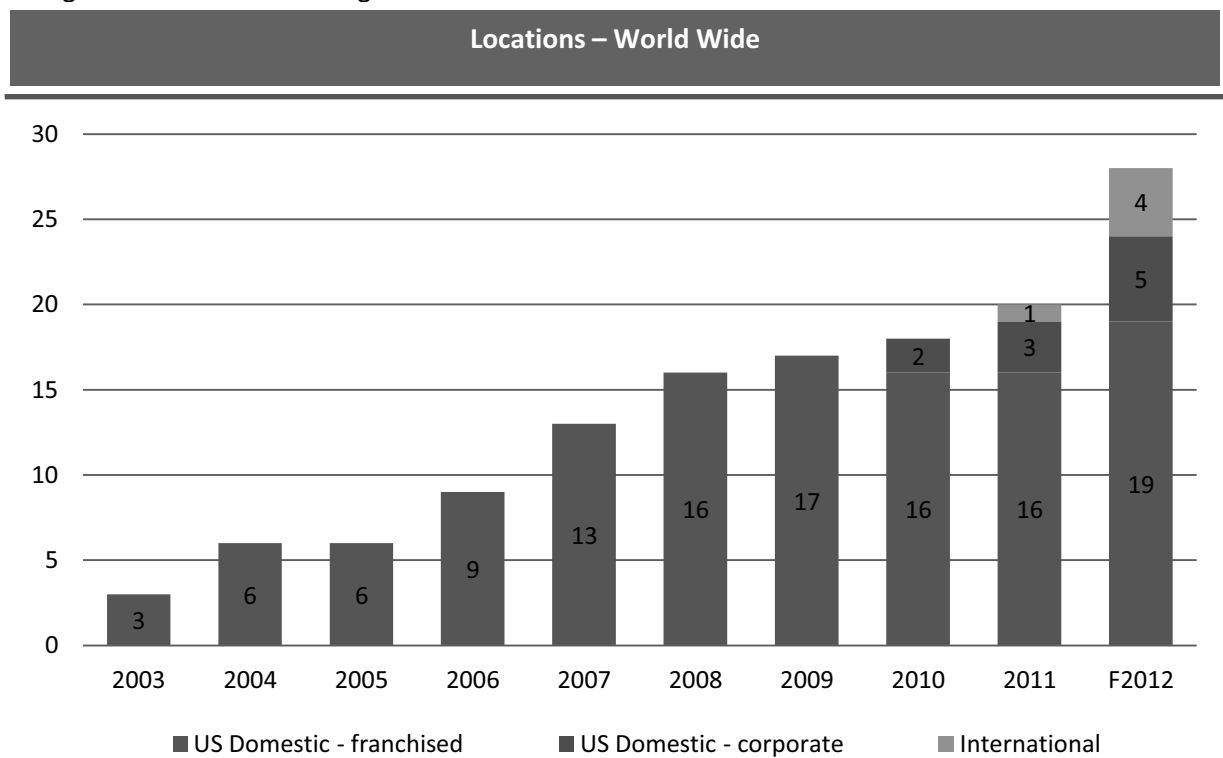
Our management team is committed to building the **PROSHRED**<sup>®</sup> brand, with the view to maximizing shareholder return on investment.

## ABOUT PROFESSIONAL SHREDDING CORPORATION AND **PROSHRED**<sup>®</sup>

Professional Shredding Corporation ("PSC") is a fully owned subsidiary of Redishred that franchises the right in the United States and internationally, outside of Canada, to sell on-site services for the destruction and disposal of documents and other sensitive and confidential materials under the trademark **PROSHRED**<sup>®</sup>. Its customers are businesses, households and other organizations that have a need to maintain the confidentiality of their proprietary information, whether for competitive reasons, to comply with legal requirements or otherwise. The **PROSHRED**<sup>®</sup> system allows businesses and individual customers to witness the destruction of their selected paper documents, computer disks, hard drives and other media that contain sensitive and confidential proprietary information.

**PROSHRED**® is a pioneer in the onsite document destruction industry, commencing operations in Toronto in 1986. In 2008, Redishred purchased PSC and the brand **PROSHRED**® from Heron Capital Corporation. With this acquisition, Redishred immediately obtained a solid platform that could support future footprint growth in the US and Internationally. The platforms that were purchased included, operating manuals, ISO manuals, software systems, and the sales and marketing materials.

As at December 31, 2011, **PROSHRED**® has 16 operating franchisees and 3 corporate locations in the United States as well as an international license agreement with Averda International LLZ. to operate throughout the Middle East region.



## 2011 SUCCESSES

During the challenging economic environment of the last few years we saw opportunities to continue to grow our businesses, not only in the United States, but internationally. Some of our key successes from last year include:

- Increased year over year system sales by 15% versus the previous year;
- Service related system sales increased by 10% versus the previous year;
- Recycling related system sales increased by 31% versus the previous year;
- Saved 328,000 trees by way of recycling shredded paper;
- One new Franchisee commenced operations (Indianapolis);
- Awarded three new franchises in Atlanta, Phoenix and Dallas;
- Opened our first international location in Doha, Qatar, and
- Generated \$2,012,000 in revenue and \$364,000 in corporate location income (including interest related to the purchase of the locations) for the 12 months ended December 31, 2011.

**Continued Growth in Service Revenue** – The **PROSHRED**<sup>®</sup> system continued to grow in 2011, with total system sales growing at a rate of 15% over the previous year. More encouraging, service related system sales (revenues generated from providing secure shredding service to customers and does not include recycling related revenues) grew by 10% over the prior year. This strong growth in service related system sales is due to **PROSHRED**<sup>®</sup>'s focus on strong customer service and education of clients on the security benefits of using the **PROSHRED**<sup>®</sup> service on a regular basis. It is **PROSHRED**<sup>®</sup>'s plan to continue building service related revenue by focusing on client education at the local level, by way of initiating new outbound lead generation programs and by enhancing our web presence in the areas of social media and search engine optimization.

**Quality and Brand** – **PROSHRED**<sup>®</sup> continues to be the only national onsite document destruction company in the United States to be ISO 9001 - 2008 certified for international standards in quality and customer satisfaction, this certification was renewed in 2011. In addition, all of our franchise and corporate locations in operation more than one year are NAID AAA certified.

**Commitment to Communities and the Environment** – **PROSHRED**<sup>®</sup>'s core values include commitment to the communities we serve and a commitment towards a cleaner and greener environment. During 2011, **PROSHRED**<sup>®</sup> franchisees and corporate locations conducted 146 community shredding events.

These events are aimed at educating consumers on the serious ramifications of identity theft while simultaneously allowing consumers to destroy their confidential documents on site. Our community shredding events are often conducted in association with local charities raising funds for their worthy causes. An important byproduct of the **PROSHRED**<sup>®</sup> service is the shredded paper, all paper that is shredded is also recycled, and as a result, **PROSHRED**<sup>®</sup> locations shred 21,900 tons of paper in 2011, saving 328,000 trees.

#### **2011 CHALLENGES**

**Paper Prices** – During the first three quarters of 2011, driven by overseas demand, recycled paper prices continued to increase to near record highs (close to \$250 per ton). This dramatic price increase caused increased price competition as some competitors reduced prices for the service as they relied heavily on revenues from the recycled products. **PROSHRED**<sup>®</sup>'s response to this challenge has been and will be to focus its sales strategy on building strong route densities. By building strong route densities, we can increase our truck utilization, thereby reducing our cost per stop and remaining competitive during upward paper pricing cycle. In the last quarter of 2011, paper prices fell by more than \$100 per ton, driven by reduced demand in both overseas and domestic markets. This reduction in paper prices was offset by slightly stronger prices for our unscheduled and one-time purge services.

**PROSHRED**<sup>®</sup> remains committed to our core values of honesty and transparency in our pricing communications with our customers, as a result we do not typically include fuel, insurance or administrative surcharges in the price of our on-site shredding services.

**Franchise Development** – The **PROSHRED**<sup>®</sup> franchise model is capital intensive, as it requires significant investment in equipment and human resources to launch. The typical franchisee candidate has a net worth of at least \$1M. The United States credit markets continue to be poor, restricting access to capital for potential franchisees, hence reducing the pool of qualified candidates. In order to respond to this situation, **PROSHRED**<sup>®</sup> has implemented a temporary discount on initial franchise fees in order to reduce the amount of cash required to enter the system for qualified candidates. In addition to the franchise fee incentives, **PROSHRED**<sup>®</sup> management continues to work with various financing brokers and advisors with the goal to open new financing channels for new and existing franchisees.

**Litigation** – Redishred has been working diligently to resolve the litigation brought against it by four of its **PROSHRED**® franchisees. In late 2010, Redishred purchased the Wisconsin franchise, settling their claim. On January 1, 2012, Redishred purchased the New York City franchise, settling their claim against the Company. The Company has and will continue to work to resolve the remaining litigation in 2012.

**REDISHRED CAPITAL CORP AND PROSHRED® MOVING FORWARD**

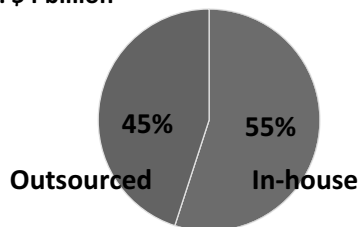
*Industry Update*

The following highlights the shredding market in 2011:

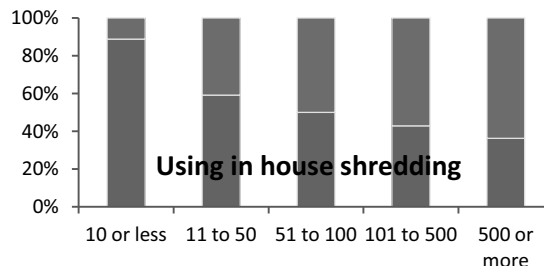
- The shredding market continues to be a \$4 billion dollar market, of which 45% (\$1.8 Billion) is outsourced to providers like **PROSHRED**®, and 55% (\$2.2 Billion) of the market continues to shred in-house or not at all. The market continues to grow at about 10% per annum.
- The shredding market is highly fragmented, with 42% of the market being serviced by the 5 largest operators. 58% of the market is being operated by independent “mom and pop” operators, whose revenues are under \$1.5 million per annum.
- Future growth is anticipated to be driven by small and medium sized enterprises who have been late adopters of outsourced shredding services.

**Total Shredding Market**

**Total: \$4 billion**



**Adoption by Business Size**



Source: BofAML Global Research estimates (2011), Morgan Stanley (2005), Northcoast Research (2011)



*Strategy*

**PROSHRED**® will spend the next fiscal year focusing on our core strategies as follows:

- Continuing to enhance the **PROSHRED**® system with the view of increasing franchisees' sales and profits by providing sales and marketing support to all franchisees and corporate locations;
- Recruiting and awarding new franchise locations in the United States by continuing to invest in franchise marketing activities and develop stronger relationships with business brokers;
- Continuing to acquire document destruction businesses in strategically located markets that generate recurring cash flows in select markets across the United States;
- Implement a new workflow management software with enhanced routing capabilities;
- By being involved in our communities by way of supporting local charities, conducting shredding events and continuing to recycle the paper and other materials collected and destroyed; and
- Achieving a minimum of \$1 million in earnings before interest, taxes and depreciation from existing corporate locations by increasing sales and marketing activities in the local market and by continued focus on route optimization.

These activities are aimed at (1) increasing our national footprint in the United States, (2) continuing to grow system sales, (3) enhancing Redishred's cash flows, and (4) contributing to the communities we operate in.





## ANNUAL REPORT

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We believe that our strategy, combined with an improving US economy will allow us to continue to grow our revenue, expand our footprint via franchising and acquisitions and further move towards profitability.

In closing, the management team of Redishred Capital Corp. would like to thank our hard working and dedicated franchisees and employees for their efforts and support in growing the **PROSHRED**® brand. Furthermore, we would like to thank our board of directors, shareholders, suppliers and most importantly our customers for their ongoing support. **PROSHRED**® continues to demonstrate that it is the system of choice for on-site document destruction, and we are looking forward to continuing our growth in 2012 and onwards.

*“Jeffrey Hasham”*

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Jeffrey Hasham

Chief Executive Officer

## **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 report for the year ended December 31, 2011 and 2010. Additional information on Redishred, including these documents and the Company's 2011 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 30, 2012.

## **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, 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 identification of appropriate assets and agreement of suitable terms;
- (iv) anticipated system sales and royalty 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; and
- (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.

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011**

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

### **Non-GAAP 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 royalty and information technology fee revenues. The system sales generated by corporate locations are included in the Company's revenues.
- Same store system sales results are indicators of performance of franchisees, licensee locations and corporately operated locations that have been in the system for equivalent periods in 2011 and 2010.
- Corporate operating income is the income generated by corporately operated locations. The operating income 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.
- 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**

On January 1, 2011, under Canadian GAAP, all public reporting companies in Canada were required to adopt International Financial Reporting Standards ("IFRS") as GAAP. All financial information reported in this MD&A is presented under IFRS excluding 2009 information. Please refer to the section called Adoption of International Financial Reporting Standards on page 20 of this MD&A for a description of the impact of adopting IFRS on the Company. 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 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, 2011 there were 22 Proshred locations in the United States comprised of 91.8 territories, and one international license to operate in the Middle East<sup>1</sup>. 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, 2011, the Company announced the addition of the Indianapolis, IN, Atlanta, GA, Phoenix, AZ and Dallas, TX franchises to the system. These franchises comprise 2.6, 6.3, 4.2 and 6.3 territories respectively. The Indianapolis franchise commenced operations in June of 2011 and the Atlanta, Phoenix and Dallas operations are expected to commence in the first quarter of 2012. The Company also operates the Syracuse, Albany and Milwaukee locations directly.

**REDISHRED CAPITAL CORP.  
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In addition, the Middle East licensee currently has one location in operation in Doha, Qatar. On January 1, 2012, the Company purchased the Proshred New York City business from an existing franchisee and will operate the location directly in 2012.

<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.

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	April 2007	3.8
9.	RALEIGH, NC	June 2007	4.7
10.	BALTIMORE, MD (includes Washington, DC)	November 2007	6.7
11.	NEW YORK CITY, NY (includes Long Island, NY)	January 2008 <sup>(1)</sup>	11.3
12.	MIAMI, FL	June 2008	5.7
13.	N. VIRGINIA, VA	July 2008	3.8
14.	ORANGE COUNTY, CA	September 2009	3.0
15.	SAN DIEGO, CA	October 2010	2.9
16.	INDIANAPOLIS, IN	June 2011	2.6
<i>Franchises in operation</i>			<b>68.6</b>
<b>No.</b>	<b>Corporate locations</b>	<b>Operating since</b>	<b>Territories</b>
17.	SYRACUSE, NY	March, 2004 <sup>(2)</sup>	2.5
18.	ALBANY, NY	April, 2003 <sup>(2)</sup>	1.2
19.	MILWAUKEE, WI	August 2003 <sup>(2)</sup>	2.7
<i>Corporate locations in operation</i>			<b>6.4</b>
<b>Grand Total</b>			<b>75.0</b>
<b>No.</b>	<b>Pending franchise locations</b>	<b>Expected Operation</b>	<b>Territories</b>
20.	ATLANTA, GA	January, 2012	6.3
21.	PHOENIX, AZ	January, 2012	4.2
22.	DALLAS, TX	1 <sup>st</sup> quarter of 2012	6.3
<i>Pending</i>			<b>16.8</b>

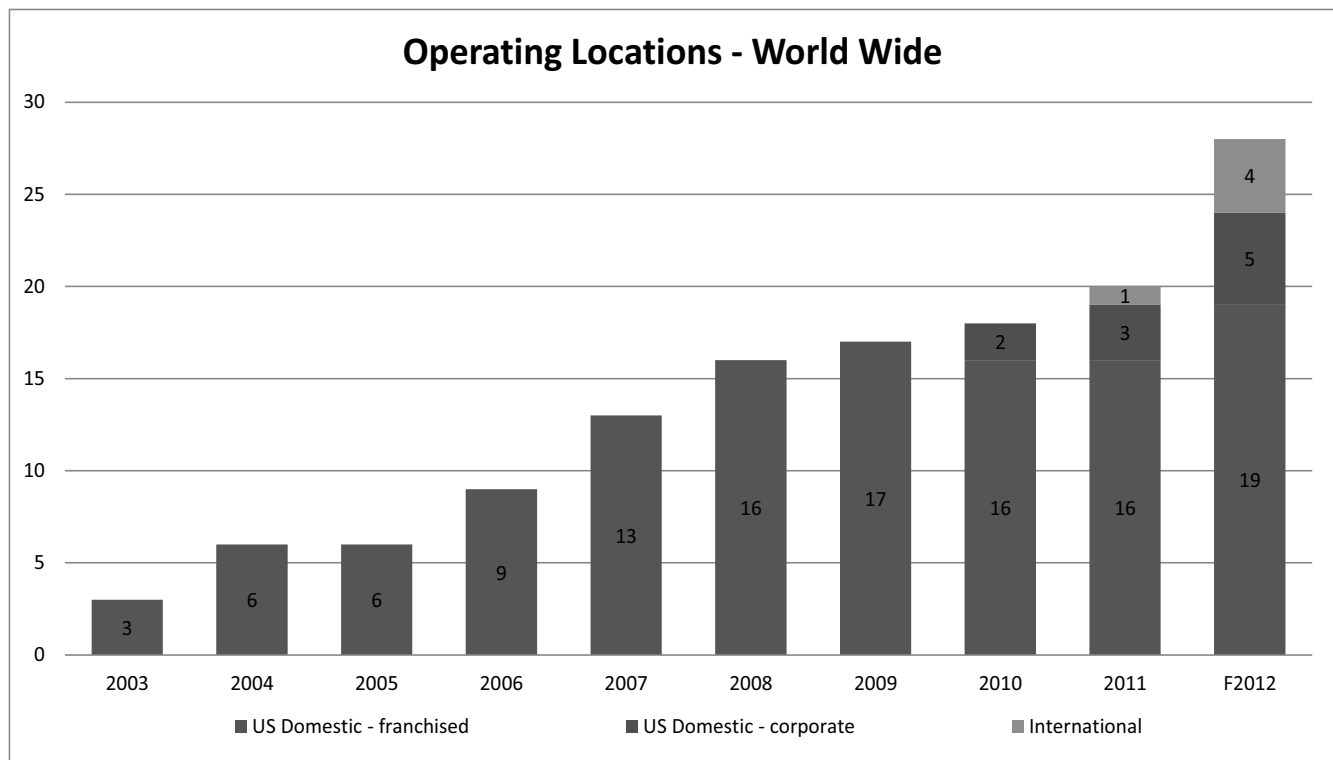
**REDISHRED CAPITAL CORP.  
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<u>No.</u>	<u>International locations</u>	<u>Operating since</u>	<u>Territories</u>
1.	DOHA, QATAR	September 2011	-
<u>No.</u>	<u>Pending international locations</u>	<u>Operating since</u>	<u>Territories</u>
2.	DUBAI, UAE	January, 2012	-

(1) New York City was purchased by the Company on January 1, 2012, to be operated corporately.

(2) 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.

**Worldwide locations**



**Performance Compared to 2011 Goals and Objectives**

In the Company's 2010 Annual Report, management stated its 2011 goals and objectives. A review of the Company's performance in meeting these goals and objectives is included below:

2011 Goals and Objectives	Performance to December 31, 2011	Comments
Grow system sales from existing locations by 15% to \$14.8M USD compared to 2010.	Redishred's system sales from all locations grew by 15% over the year ended December 31, 2010 to a total of \$14.9M. Same store system sales grew by 16% for the same period.	<b>Redishred attained the annual goal.</b>
Establish two new franchise locations.	During 2011, Redishred awarded four new franchise locations. On May 16, 2011, Redishred awarded the Indianapolis, IN franchise. During the 4 <sup>th</sup> quarter of 2011, Redishred awarded the Atlanta, GA, Phoenix, AZ and Dallas, TX franchises.	<b>Redishred has exceeded the annual goal.</b>
Establish two new corporate locations by way of acquisition or by way of starting new locations.	Redishred had not conducted any acquisitions or initiated any new locations during the year ended December 31, 2011.	<b>Redishred did not attain the annual goal of establishing two new corporate locations. Subsequent to year-end, on January 1, 2012, the Company completed the acquisition of the New York City business from an existing franchisee. The Company continues to monitor the industry for acquisition opportunities.</b>
Achieve a minimum of \$450,000 in EBITDA from existing Corporate locations (Syracuse, Albany and Milwaukee).	Redishred earned \$781,652 in EBITDA (and \$364,201 in operating income) from its Corporate locations during the year ended December 31, 2011.	<b>The Company has exceeded the annual goal.</b>

**Goals and Objectives for 2012**

Management has set new objectives for 2012 as follows:

1. Grow system sales from existing locations by 10% over fiscal 2011 to a total of \$16.4 million USD.
2. Award at least two franchise locations.
3. Conduct three acquisitions in 2012.
4. Generate \$1 million in earnings before interest, taxes, depreciation and amortization ("EBITDA") from our current corporate locations, Syracuse, Albany, Milwaukee and NYC.

<b>2012 Goals and Objectives</b>	<b>Strategy for Achieving Goals</b>
Grow system sales from existing locations by 10% to \$16.4M USD compared to 2011.	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.
Conduct three acquisitions in 2012.	<p>Will actively contact small and medium size independent shredding operators with the view to purchase their operations.</p> <p>The Company will specifically target acquisitions in close proximity to existing corporate locations.</p>
Achieve a minimum of \$1 million in EBITDA from existing Corporate locations (Syracuse, Albany, Milwaukee and New York City).	Management will focus on two key areas that drive profitability, (1) increased sales and marketing activities in the local market and (2) continued focus on route optimization.

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011**

**Overall Performance**

**Selected Financial Data and Results of Operations**

The following table shows selected financial data for the years ended December 31, 2011, 2010 and 2009.

<i>For the years ended, (in CDN except where noted)</i>	<u>December 31, 2011</u>	December 31, 2010	December 31, 2009 <sup>(3)</sup>
	\$	\$	\$
<b>Franchise sales and revenue data:</b>			
System sales (USD)	<u>14,936,708</u>	<u>12,937,195</u>	<u>9,662,060</u>
<b>Total Revenue</b>	<b>3,379,383</b>	2,003,763	968,827
Franchise and license fees	<b>433,396</b>	355,413	139,883
Royalties and service fees	<b>934,192</b>	934,639	828,944
<b>Franchise related revenue</b>	<b>1,367,588</b>	1,290,052	968,827
<b>Corporate location data:</b>			
Corporate location revenue	<b>2,011,795</b>	713,711	-
Corporate location costs <sup>(1)</sup>	<b>(1,647,594)</b>	(635,983)	-
<b>Operating income from corporate locations</b>	<b>364,201</b>	77,728	-
On-going operating costs	<b>(1,608,218)</b>	(1,571,196)	(1,884,664)
Broker fees	<b>(121,612)</b>	(25,527)	-
One-time costs <sup>(2)</sup>	<b>(599,355)</b>	-	(210,000)
Bad debt expense	<b>(103,320)</b>	(35,811)	(67,000)
Depreciation and amortization- equipment	<b>(3,014)</b>	(6,520)	(198,681)
<b>Total operating costs</b>	<b>(2,435,519)</b>	(1,639,054)	(2,360,345)
<b>Operating income (loss)</b>	<b>(703,730)</b>	(278,725)	(1,391,518)
<b>Net income (loss)</b>	<b>(455,083)</b>	(274,100) <sup>(4)</sup>	(2,003,043)
<b>Loss per share</b>	<b>(0.02)</b>	(0.01) <sup>(4)</sup>	(0.09)
<b>Total assets</b>	<b>9,006,024</b>	6,631,248 <sup>(4)</sup>	6,279,555
<b>Total non-current financial liabilities</b>	<b>5,544,805</b>	2,790,000	-

(1) Corporate location costs include operating costs, interest expense for the use of the Company's line of credit and depreciation and amortization on tangible assets.

(2) One-time costs incurred in 2011 are primarily legal fees related to the defence of the current franchisee litigation against the Company and accounting costs related to the adoption of IFRS. As of January 1, 2012, only two franchisees remained in the litigation.

(3) The year-ended December 31, 2009 is not reported under International Financial Reporting Standards.

(4) The Company has restated 2010 net loss, loss per share and total assets as the Company reversed a portion of impairment originally incurred at the January 1, 2010 opening balance sheet. Further information can be found on page 21 under "Impact of adoption of IFRS."



**REDISHRED CAPITAL CORP.  
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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 three corporate locations in Syracuse, Albany, and Milwaukee. These corporate locations generate shredding service revenue and recycling revenue as well as incur costs related to the marketing to and servicing of customers. The Company also incurs costs related to managing the Proshred system, including salaries and administration.

**Total Revenues**

Franchising and licensing:

	3 months ended December 31			12 months ended December 31		
	2011	2010	% Ch	2011	2010	%Ch
	\$	\$		\$	\$	
Franchise and license fees	<b>371,381</b>	246,249	51%	<b>433,396</b>	355,413	22%
Royalty and service fees	<b>229,033</b>	220,895	4%	<b>934,192</b>	934,639	0%
Total franchise and license related revenue	<b>600,414</b>	467,144	29%	<b>1,367,588</b>	1,290,052	6%

During the 4<sup>th</sup> quarter of 2011, the Company entered into three franchise agreements to operate the "Proshred" platform in Atlanta, GA, Phoenix, AZ and Dallas, TX. As a result, the Company earned \$371,381 in franchise fees. The Company derives all franchise and license related revenues in US dollars which are translated at the average exchange rate for the period. 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

For the three months ended December 31, 2011, royalty and fee revenues were \$598,085 USD. For the year ended December 31, 2011, royalty and fee revenues were \$1,383,078 USD. Total franchise and license related revenue for the year ended December 31, 2011 remained consistent with the prior year due to the conversion of three franchise locations to corporate locations, which was offset by the increase in system sales. The twelve month average depreciation of the Canadian dollar versus the US Dollar also impacted the total franchise and license related revenue unfavourably.

Corporate Operations:

	3 months ended December 31			12 months ended December 31		
	2011	2010 <sup>1</sup>	%Ch	2011	2010 <sup>1</sup>	%Ch
	\$	\$		\$	\$	
Shredding services	<b>368,038</b>	218,401	69%	<b>1,437,817</b>	544,373	164%
Recycling	<b>115,145</b>	69,734	65%	<b>573,978</b>	169,338	239%
Total shredding related revenue	<b>483,183</b>	288,135	68%	<b>2,011,795</b>	713,711	182%

<sup>1</sup> The results for the three and twelve months ended December 31, 2010 include the corporate operations of Syracuse, which began May 1, 2010. Albany has been corporately operated since July 1, 2010; Milwaukee has been corporately operated since January 1, 2011.

Shredding service and recycling revenue is generated by our corporate locations in Albany, Syracuse and Milwaukee. 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, 2011, shredding service and recycling revenues, denominated in US dollars were \$470,465 USD. For the twelve months ended December 31, 2011, shredding service and recycling revenues, denominated in US dollars were \$2,034,582 USD.

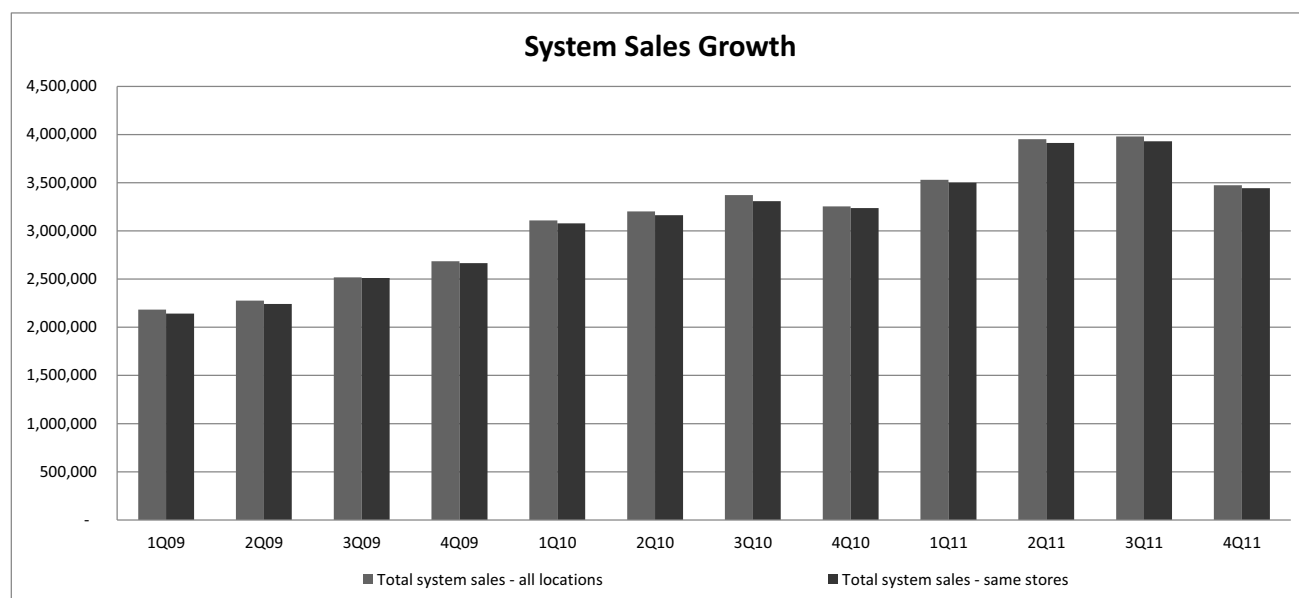
**REDISHRED CAPITAL CORP.  
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**System Sales**

Franchisees and corporate 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:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2011</b>	2010	%Ch	<b>2011</b>	2010	%Ch
Total operating locations at period end	<b>19</b>	18	6%	<b>19</b>	18	6%
Territories	<b>75.0</b>	72.4	4%	<b>75.0</b>	72.4	4%
Total system sales (USD)	<b>\$ 3,474,657</b>	\$ 3,253,687	7%	<b>\$ 14,936,708</b>	\$ 12,937,195	15%
Total system sales (CDN)	<b>\$ 3,555,269</b>	\$ 3,297,840	8%	<b>\$ 14,769,417</b>	\$ 13,335,014	11%

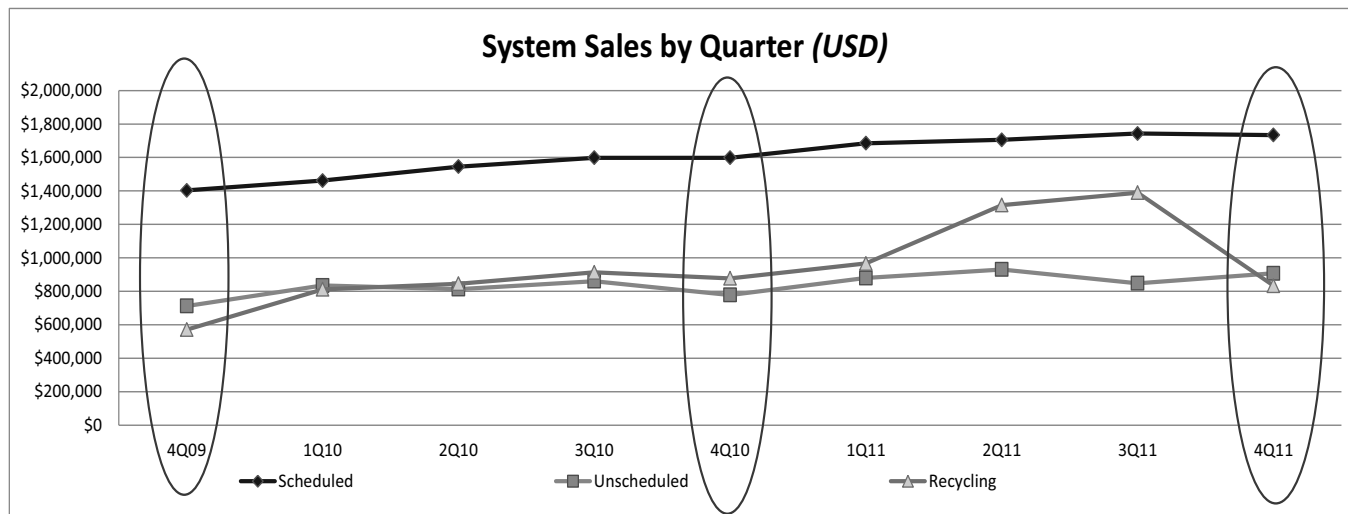
The following chart illustrates system sales growth by quarter since 2009.



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*System Sales Quarter Over Quarter:*

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



Service related system sales, scheduled and unscheduled, were \$2,641,341 for the fourth quarter of 2011, growing by \$264,806 over the fourth quarter of 2010. Same store sales for the analysis above has not been broken out as only one new location was opened in each of 2010 and 2011. Their sales did not have a material impact.

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 resulted in continued growth in this category in the fourth quarter of 2011 versus the same quarter in 2010.

	3 months ended December 31			12 months ended December 31		
	2011	2010	%Ch	2011	2010	%Ch
Scheduled service sales (USD)	\$1,733,851	\$1,598,440	8%	\$ 6,866,676	\$ 6,203,715	11%

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.

	3 months ended December 31			12 months ended December 31		
	2011	2010	%Ch	2011	2010	%Ch
Unscheduled service sales (USD)	\$ 907,490	\$ 778,095	17%	\$ 3,565,415	\$ 3,285,974	9%

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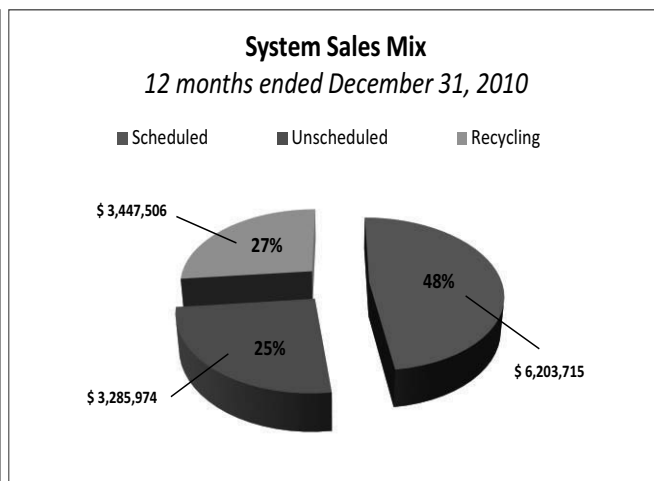
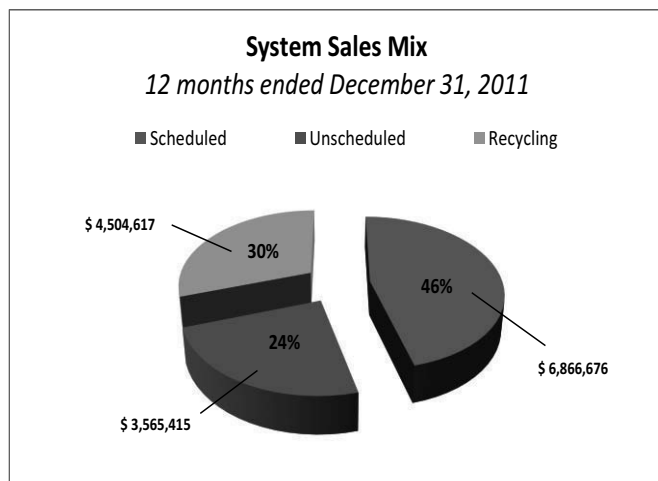
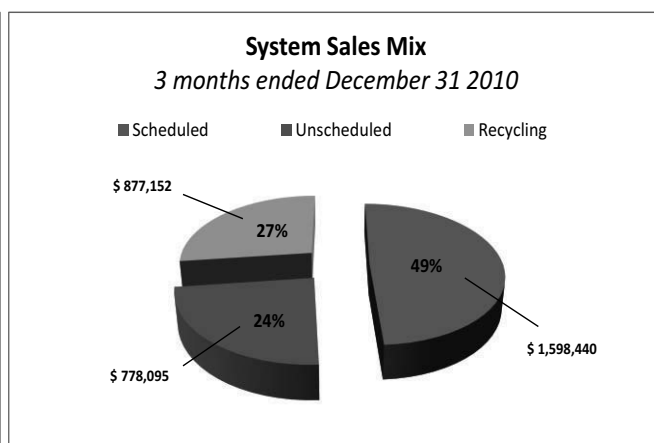
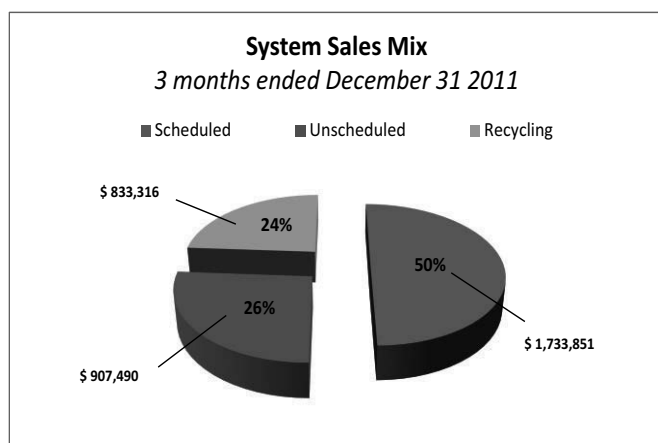
Recycling sales:

Recycling sales are defined as the revenue generated from the shredded paper and other material that is sold to various recycling companies. This sales category is driven by global supply and demand for shredded paper. From the last quarter of 2009 to the third quarter of 2011, prices for recycled paper products increased and grew to near record highs. During the fourth quarter of 2011, prices decreased substantially from the prior quarter's record highs.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2011</b>	2010	%Ch	<b>2011</b>	2010	%Ch
Recycling sales (USD)	<b>\$ 833,316</b>	\$ 877,152	(5)%	<b>\$ 4,504,617</b>	\$ 3,447,506	31%

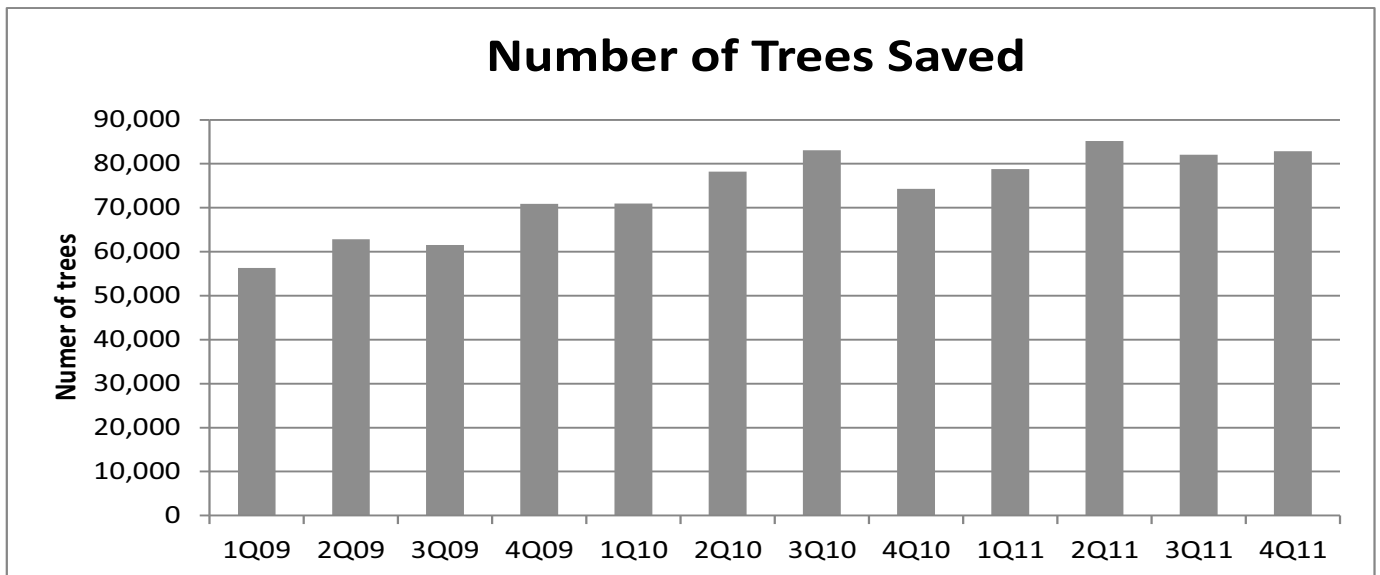
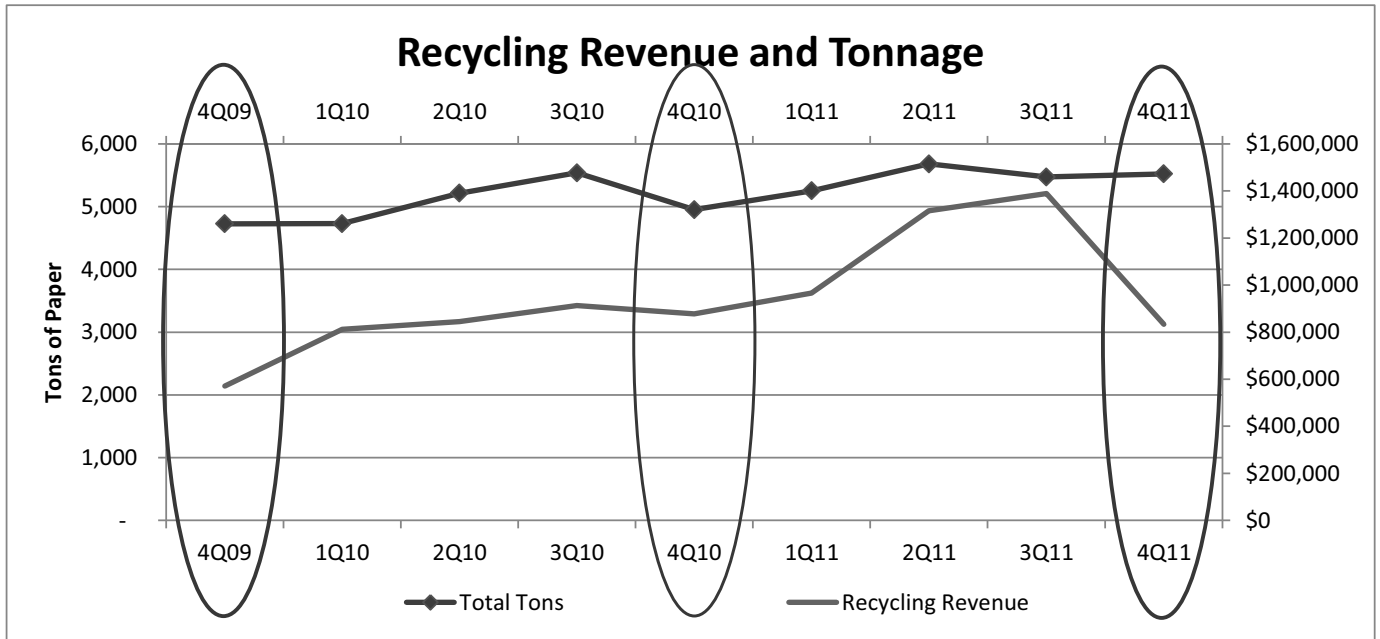
Mix of business:

Scheduled sales account for 46% of total sales for the twelve months ended December 31, 2011 and 50% of total sales for the fourth quarter of 2011. Unscheduled sales account for 24% of total sales for the twelve months ended December 31, 2011 and 26% of total sales for the fourth quarter of 2011. Recycling sales account for 30% of total sales for the twelve months ended December 31, 2011 and 24% of total sales for the fourth quarter of 2011.



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The system as a whole has continued to shred and recycle increased volumes of paper. During the twelve months ended December 31, 2011, the system shredded and recycled 21,900 (20,400 – December 31, 2010) tonnes of paper, which equates to 328,000 (306,500 – December 31, 2010) trees being saved.



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**Operating Expenses**

	3 months ended December 31			12 months ended December 31		
	2011	2010	%Ch	2011	2010	%Ch
	\$	\$		\$	\$	
Salaries	212,286	207,172	(2)%	842,155	876,349	4%
General, administrative and marketing – on-going	226,427	202,704	(12)%	766,063	694,847	(10)%
General, administrative and marketing – one-time costs	151,525	-	(100)%	599,355	-	(100)%
Bad debt expense	59,341	20,263	(193)%	103,320	35,811	(189)%
Broker fees	98,197	-	(100)%	121,612	25,527	(376)%
Depreciation and amortization - equipment	(2,539)	2,328	209%	3,014	6,520	54%
<b>Total operating expenses</b>	<b>745,237</b>	<b>432,467</b>	<b>(72)%</b>	<b>2,435,519</b>	<b>1,639,054</b>	<b>(49)%</b>

Operating expenses for the twelve months ended December 31, 2011 include expenses to support 22 Proshred locations in operation, training and initial support for pending locations, the costs to develop new markets by way of franchising, licensing and acquisition and the amortization of office equipment and furniture and fixtures. 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. General, administration and marketing costs have increased over 2010 on a quarterly and year to date basis, primarily as a result of increased accounting costs related to the adoption of IFRS and due to legal costs associated with the defence of the current litigation against the Company.

**Corporate Operations**

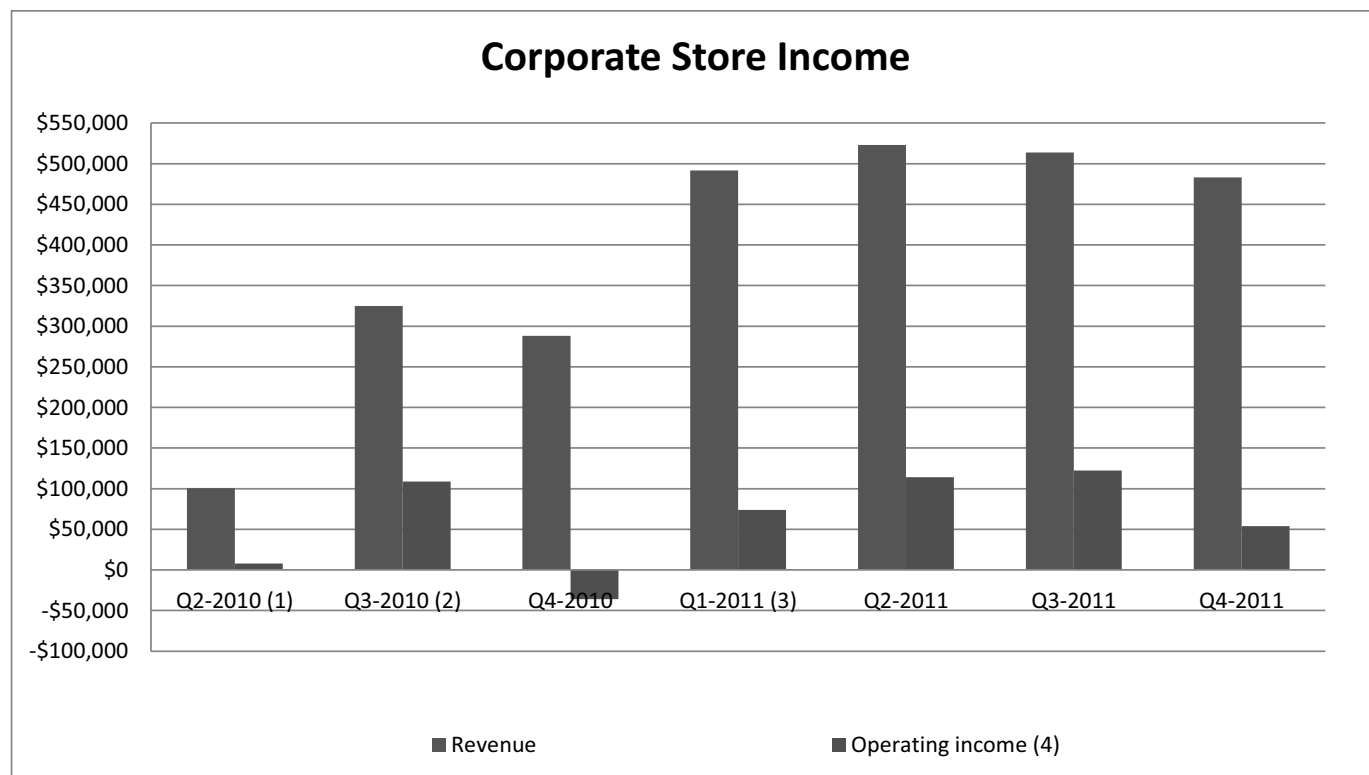
The Company operates three shredding operations in Syracuse, NY, Albany, NY and Milwaukee, WI. These locations represent the Company's corporately owned and operated locations. The New York City business was acquired on January 1, 2012 and will be included in the Company's 2012 results.

	3 months ended December 31				12 months ended December 31			
	2011 \$	% of revenue	2010 <sup>1</sup> \$	% of revenue	2011 \$	% of revenue	2010 <sup>1</sup> \$	% of revenue
Revenue:								
Shredding service	368,038	76%	218,401	76%	1,437,817	71%	544,373	77%
Recycling	115,145	24%	69,734	24%	573,978	29%	169,338	23%
<b>Total revenue</b>	<b>483,183</b>	<b>100%</b>	<b>288,135</b>	<b>100%</b>	<b>2,011,795</b>	<b>100%</b>	<b>713,711</b>	<b>100%</b>
Operating costs	316,774	66%	231,462	80%	1,230,143	61%	491,558	69%
EBITDA	166,411	34%	56,673	20%	781,652	39%	222,153	31%
Depreciation – tangible assets	34,271	7%	34,246	12%	130,536	6%	71,343	10%
Interest expense	78,240	16%	32,523	11%	286,915	14%	73,082	10%
Corporate operating income	53,900	11%	(10,096)	(4)%	364,201	18%	77,728	11%

<sup>1</sup> The results for the three and twelve months ended December 31, 2010 include the corporate operations of Syracuse, which began May 1, 2010 and of Albany, which began July 1, 2010.

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The following chart illustrates the last 7 quarters of results from the corporate locations:



(1) Syracuse, NY was purchased on April 30, 2010.

(2) Albany, NY was purchased on June 30, 2010, operations did not commence until July 1, 2010.

(3) Milwaukee, WI was purchased on December 31, 2010, operations did not commence until January 1, 2011.

(4) Operating income is defined as revenue less operating costs, less depreciation associated with shredding trucks and other tangible assets utilized by the operation and interest expense.

**Operating income (loss)**

The Company posted an operating loss of \$80,292 for the three months ended December 31, 2011 and an operating loss of \$693,449 for the twelve months ended December 31, 2011. The operating loss was driven by increased professional fees offset by the continued growth of the Company's corporate locations, which have been accretive to Redishred's cash flows. In addition to the cash generated from the corporate locations, the Company generated additional revenues from awarding the Atlanta, GA, Phoenix, AZ and Dallas, TX franchises.

	3 months ended December 31			12 months ended December 31		
	2011	2010	%Ch	2011	2010	%Ch
	\$	\$		\$	\$	
Operating income (loss)	<b>(90,563)</b>	24,681	(468)%	<b>(703,730)</b>	(278,725)	(159)%
Operating income (loss) – excluding one-time costs	<b>60,602</b>	24,681	148%	<b>(101,952)</b>	(278,725)	62%

**Foreign exchange**

Foreign exchange (gain) loss was as follows:

	3 months ended December 31			12 months ended December 31		
	2011	2010	%Ch	2011	2010	%Ch
	\$	\$		\$	\$	
Foreign exchange (gain) loss	<b>(130,580)</b>	186,464	170%	<b>(66,163)</b>	143,600	146%

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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 U.S. dollar costs.

***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 bears interest at 8.14% per annum. All interest costs have been attributed to the acquisition of corporate locations to date.

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2011</b>	2010	%Ch	<b>2011</b>	2010	%Ch
	\$	\$		\$	\$	
Interest income	<b>586</b>	1,357	(57)%	<b>2,946</b>	4,945	(40)%
Interest expense	<b>(78,240)</b>	(32,523)	(141)%	<b>(286,915)</b>	(73,082)	(293)%

***Depreciation and Amortization***

Depreciation and amortization for the twelve months ended December 31, 2011 can be broken into two main classes, (1) related to the purchase of PSC and the Proshred franchise business in 2008 and (2) the assets purchased in relation to the Syracuse, Albany and Milwaukee corporate locations.

***Depreciation and Amortization***

Depreciation and amortization are as follows:

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2011</b>	2010	%Ch	<b>2011</b>	2010	%Ch
	\$	\$		\$	\$	
<b>Franchise and license operations</b>						
Depreciation and amortization – equipment	<b>(2,539)</b>	1,630	256%	<b>3,014</b>	6,520	54%
Depreciation and amortization – intangibles	<b>263,529</b>	69,242	(273)%	<b>338,141</b>	276,967	(22)%
Depreciation and amortization	<b>260,990</b>	70,872	260%	<b>341,155</b>	283,487	20%
<b>Corporate operations</b>						
Depreciation and amortization – equipment	<b>34,271</b>	34,246	0%	<b>130,536</b>	71,342	(83)%
Depreciation and amortization – intangibles	<b>41,021</b>	4,326	(848)%	<b>158,553</b>	34,390	(361)%
Depreciation and amortization	<b>75,292</b>	38,572	(95)%	<b>289,089</b>	105,732	(173)%
<b>Total</b>	<b>330,762</b>	109,444	202%	<b>630,244</b>	389,219	62%

For the three and twelve months ended December 31, 2011, depreciation and amortization of intangibles related to the franchise and license operations increased over the prior periods due to the reversal of a portion of impairment at December 31, 2010. An impairment loss was recorded at January 1, 2010 with the adoption of IFRS. Refer to page 21 under the "Impact of adoption of IFRS" for further information. For the three and twelve months ended December 31, 2011, depreciation and amortization related to corporate operations increased significantly as a result of the acquisition of the Milwaukee location on December 31, 2010.



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***Income Tax***

On March 17, 2008 the Company booked a future tax liability relating to the purchase of PSC and PFC. During the twelve months ended December 31, 2011, the Company booked a tax recovery of \$109,086. 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 as well as the reversal of impairment of intangible assets.

***Net Income (Loss)***

	<i>3 months ended December 31</i>			<i>12 months ended December 31</i>		
	<b>2011</b>	2010	%Ch	<b>2011</b>	2010 <sup>1</sup>	%Ch
	\$	\$		\$	\$	
Net income (loss)	<b>423,409</b>	213,022	99%	<b>(455,083)</b>	(274,100)	(66)%
Net income (loss) – excluding one-time costs	<b>574,933</b>	213,022	170%	<b>144,272</b>	(274,100)	153%

The Company posted a net income of \$423,409 for the three months ended December 31, 2011 as a result of the reversal of a portion of the previous impairment related to intangible assets recorded at January 1, 2010 in the amount of \$836,919 offset by an impairment of goodwill of \$247,688 (2010 reversal of impairment related to intangible assets - \$598,603). The Company also recorded a tax recovery of \$109,086 in the fourth quarter of 2011. In addition, the increase in net income in the fourth quarter of 2011 versus the fourth quarter of 2010 was driven by franchise fees earned from three new franchisees as well as increased growth of the Company's corporate locations. For the twelve months ended December 31, 2011, the increase in net loss was attributable to increased professional fees related to the defence of the current litigation against the Company and accounting costs related to the conversion to IFRS. Refer to page 21 under the "Impact of adoption of IFRS" for further information.

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***Selected Quarterly Results***

<i>(in CDN except where noted)</i>	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
<b>System sales (USD)</b>	<b>3,474,657</b>	<b>3,978,639</b>	<b>3,951,035</b>	<b>3,530,693</b>	<b>3,253,687</b>	<b>3,371,135</b>	<b>3,202,222</b>	<b>3,108,481</b>
<b>Total Company revenue</b>	<b>1,083,597</b>	<b>757,315</b>	<b>827,278</b>	<b>711,192</b>	<b>755,279</b>	<b>670,695</b>	<b>335,777</b>	<b>242,013</b>
Franchise and license fees	371,381	-	61,989	-	246,249	109,164	-	-
Royalty and service fees	229,033	243,535	242,222	219,428	220,895	236,639	235,092	242,013
<b>Total revenue from franchising and licensing</b>	<b>600,414</b>	<b>243,535</b>	<b>304,211</b>	<b>219,428</b>	<b>467,144</b>	<b>345,803</b>	<b>235,092</b>	<b>242,013</b>
On-going operating costs	(495,516)	(409,908)	(391,075)	(415,641)	(432,367)	(415,894)	(412,077)	(360,609)
One-time costs	(151,525)	(315,541)	(87,680)	(44,609)	-	-	-	-
Broker fees	(98,197)	-	(23,406)	-	-	(25,675)	-	-
Total operating expenses	(745,237)	(725,449)	(502,161)	(460,250)	(432,367)	(441,569)	(412,077)	(360,609)
<b>Total operating income (loss) – franchising and licensing</b>	<b>(144,823)</b>	<b>(481,914)</b>	<b>(197,950)</b>	<b>(240,822)</b>	<b>34,777</b>	<b>(95,766)</b>	<b>(176,985)</b>	<b>(118,596)</b>
Corporate locations revenue	483,183	513,780	523,068	491,764	288,135	324,892	100,685	-
Corporate locations costs	(351,043)	(321,058)	(339,315)	(349,262)	(265,708)	(213,409)	(83,678)	-
Interest expense	(78,240)	(70,322)	(69,559)	(68,795)	(32,523)	(31,361)	(9,198)	-
<b>Total operating income (loss) - corporate</b>	<b>53,900</b>	<b>122,400</b>	<b>114,194</b>	<b>73,707</b>	<b>(10,096)</b>	<b>80,122</b>	<b>7,809</b>	<b>-</b>
<b>Total operating income (loss) – excluding one-time costs</b>	<b>60,602</b>	<b>(43,973)</b>	<b>3,925</b>	<b>(122,506)</b>	<b>24,681</b>	<b>(15,644)</b>	<b>(169,176)</b>	<b>(118,596)</b>
Income (loss) before taxes	324,925	(312,605)	(245,583)	(330,908)	196,369 <sup>(1)</sup>	(81,362)	(222,006)	(217,110)
Profit (loss) attributable to owners of the parent	423,409	(309,946)	(244,583)	(325,908)	213,022 <sup>(1)</sup>	(60,006)	(216,006)	(211,110)
Profit (loss) excluding one-time costs	574,933	5,595	(156,903)	(281,297)	213,022 <sup>(1)</sup>	(60,006)	(216,006)	(211,110)
Basic and diluted net income (loss) per share	.01	(.01)	(.01)	(.01)	.01 <sup>(1)</sup>	(.00)	(.01)	(.01)

(1) The Company has restated 2010 net loss and loss per share as the Company reversed a portion of impairment at December 31, 2010. The impairment originally recorded at the January 1, 2010 opening balance sheet. Further information can be found on page 21 under "Impact of adoption of IFRS."

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*2011*

System sales experienced double digit growth in 2011 over 2010. System sales have been driven by growth in scheduled sales and by revenues generated from the recycling of the paper by-product. 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. The lower royalty fees in the 4<sup>th</sup> quarters of 2011 and 2010 have been offset by franchise fees collected related to awarding new franchisees or licensees. The quarterly reduction in royalty revenues in 2011 over 2010 were driven by the conversion of three franchise locations to corporate locations, partially offset by the increase in system sales. For 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.

*2010*

System sales have seen upward momentum since the second quarter of 2009, due to continued growth in service related system sales, and due to very strong growth in recycling related system sales. The Company also operated two corporate locations, resulting in increased income from this business segment. The Company in 2010 has continued to minimize operating overheads, resulting in a 22% reduction in costs versus fiscal 2009. For the majority of 2010, the Canadian dollar continued to strengthen versus the US dollar, resulting in tempered growth in royalty revenues reported versus 2009.

***Balance Sheet***

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Working capital	\$ 2,982,233	\$ 840,301
Total assets <sup>(1)</sup>	9,006,024	6,631,248
Total liabilities <sup>(1)</sup>	6,726,456	3,921,632

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. On October 31, 2011, the line of credit was increased to \$5.37 million; all other terms of the agreement remained unchanged. On November 11, 2011, the Company entered into a loan and security agreement in the amount of \$240,000 denominated in US dollars, repayable on a monthly basis until October 3, 2015. The loan bears interest at 8.14% per annum and is secured by two shredding vehicles. As of December 31, 2011, the Company has utilized \$5.37 million of the line of credit to purchase the Syracuse, Albany and Milwaukee businesses in 2010 and the New York City business on January 1, 2012. In March 2012, the line of credit was increased by \$0.63 million to \$6.0 million; all other terms of the agreement remained unchanged.

The Company issued no dividends during the year.

(1) *The Company has restated 2010 total assets and total liabilities as the Company reversed a portion of impairment originally incurred at the January 1, 2010 opening balance sheet. Further information can be found on page 21 under "Impact of adoption of IFRS."*

**REDISHRED CAPITAL CORP.  
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**Financial Condition / Capital Resources / Liquidity**

As of December 31, 2011, the Company has working capital of \$2,982,233 (December 31, 2010 - \$840,301). The Company also has access to a \$5.37 million line of credit, of which \$5.37 million has been drawn as of December 31, 2011. \$2.5 million of the cash was used to purchase the New York City business from a current franchisee on January 1, 2012.

The Company monitors its cash balances and cash flows generated from operations to meet its requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due over the next twelve months. During 2010, the Company used \$2.79 million of its line of credit facility to acquire the Syracuse, Albany and Milwaukee franchises, two shredding trucks and initial working capital for the acquired businesses. On October 31, 2011, the line of credit was increased to \$5.37 million and the funds were used to acquire the New York City franchise on January 1, 2012. Subsequent to year-end, in March 2012, the line of credit was increased by \$0.63 million to \$6.0 million. The line of credit is repayable on November 27, 2014 with interest payments due semi-annually, all other terms of the agreement remained unchanged. The accounts payable, accrued liabilities and notes payable of \$708,195 at December 31, 2011 (December 31, 2010 - \$641,400) 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) conducting accretive acquisitions, and (2) continuing to franchise in the United States. The Company estimates that it will be necessary to conduct one acquisition and 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	156,372
Between 1 and 5 years	140,232
More than 5 years	-
Total	<u>296,604</u>

**Capital Assets**

<i>As at,</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>% Ch</u>
	\$	\$	
Net book value	565,294	660,506	(14)%

Capital assets (not including intangible assets) decreased to \$565,294 as a result of additional depreciation expense that was offset by the purchase of additional bins and shredding containers during the year.

**Off-Balance Sheet Financing Arrangements**

The Company has no off-balance sheet financing arrangements.

## **Adoption of International Financial Reporting Standards**

### **Impact of Adoption of IFRS**

Redishred has adopted IFRS effective January 1, 2010 (the transition date) and has prepared its opening balance sheet as at that date. Prior to the adoption of IFRS the Company prepared its financial report in accordance with previous Canadian GAAP. The Company's consolidated financial report for the year ended December 31, 2011 is the first annual financial report that complies with IFRS.

IFRS is premised on a conceptual framework similar to previous Canadian GAAP, however, there are significant differences in certain matters of recognition, measurement, presentation and disclosures. While the adoption of IFRS did not have an impact on Redishred's reported net cash flows, it did have a material impact on the Company's consolidated balance sheets and statements of income.

The three months ended March 31, 2011 unaudited consolidated interim financial report was the Company's first financial statements reported under IFRS. As these statements represented the Company's initial presentation of its results and financial position in accordance with IFRS, the Company presented its opening IFRS balance sheet at January 1, 2010. In addition, the Company disclosed the equity reconciliations of the effect of the transition from Canadian GAAP to IFRS at January 1, 2010, March 31, 2010 and December 31, 2010 as well as the comprehensive loss reconciliation for the three months ended March 31, 2010 and the year ended December 31, 2010. At December 31, 2011, Redishred re-stated certain balance sheet accounts in its IFRS balance sheet at January 1, 2010 and December 31, 2010 as well as its financial results for the year ended December 31, 2010. The impact and substance of the re-statement is described below.

### ***Balance Sheet Impact***

The most significant balance sheet impact of IFRS relates to the valuation of Redishred's tangible and intangible assets, and in particular the method of measuring impairment. Under previous Canadian GAAP, an impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The impairment loss is then measured as the amounts by which the carrying amount of a long-lived asset exceeds its fair value.

Under IFRS, an impairment loss is the amount by which the carrying amount of an asset or a cash generating unit ("CGU") exceeds its recoverable amount. A CGU is defined as the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use. If the recoverable amount is less than the carrying amount, then the carrying amount is reduced to the recoverable amount. The cash inflows of a CGU are inflows of cash and cash equivalents received from third parties. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. The reversal is limited to restoring the carrying amount such that it does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

Redishred measures its cash flows from individual franchisee royalty streams and from individual corporate locations. Additionally, IFRS measures the recoverability of the carrying value of assets using discounted cash flows. As a result, the impact of this accounting change resulted in a \$2,388,818 decrease in the value of Redishred's tangible and intangible assets at the opening IFRS balance sheet date of January 1, 2010, which was a 52% decrease in the carrying value under previous Canadian GAAP at December 31, 2009. In its interim unaudited financial statements for the 3 months ended March 31, 2011, Redishred reported a decrease in the value of its tangible and intangible assets of \$3,150,000 at the opening IFRS balance sheet date.

These changes to the opening balance sheet required a corresponding tax adjustment. The tax adjustment resulted in a \$94,551 decrease in the Company's future income tax liability as at January 1, 2010 compared to December 31, 2009 under previous Canadian GAAP. In its first quarter 2011 unaudited financial statements, the Company reported a \$477,983 decrease in the Company's future income tax liability at January 1, 2010. The deferred tax liability was originally recognized as the difference between the accounting value of the intangible assets and their related tax values. The change in the impairment of intangible assets directly impacted the corresponding tax adjustment.

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The Company's accounting for stock options was also impacted by the change to IFRS. The change resulted in a \$30,548 increase in contributed surplus at January 1, 2010.

The net difference of these adjustments flowed through Shareholders' Equity, which decreased by \$2,294,268 at the transition date. Redishred's previous deficit of \$3,642,286 at December 31, 2009 was adjusted by \$2,183,195, resulting in a deficit of \$5,825,481 under IFRS as at January 1, 2010. In its first quarter 2011 unaudited financial statements, the Company reported a decrease of \$2,672,017 to Shareholders' Equity at the transition date and an adjustment of \$2,560,943 to the deficit at December 31, 2009, resulting in a deficit of \$6,203,229 at January 1, 2010.

At December 31, 2010, the Company recovered \$416,814 in depreciation recorded under previous Canadian GAAP as a result of the impairment loss taken at the opening IFRS balance sheet. In its 2011 first quarter unaudited financial statements, Redishred reported a \$389,809 recovery in amortization directly a result of the previously reported impairment loss at January 1, 2010.

At December 31, 2010, the Company assessed its indicators for impairment and reversals of previously recorded impairment and determined that the recoverable amount of certain CGUs was higher than their carrying amounts and recorded a reversal of impairment of intangible assets of \$599,032. In its first quarter 2011 unaudited financial statements, the Company did not report a reversal of impairment of intangible assets. The reversal of previously recorded impairment and the recovery of amortization directly impacted the deferred tax liability. The deferred tax liability was increased by \$47,422 at December 31, 2010. Redishred previously reported an increase of \$40,487 to the deferred tax liability.

Please refer to note 25 of Redishred's 2011 audited consolidated financial statements for a reconciliation of equity from previous Canadian GAAP to IFRS as at January 1, 2010 and December 31, 2010.

***Income Statement Impact***

In adopting IFRS, Redishred restated its income statement for the year ended December 31, 2010. The accounting changes resulted in a net loss based under IFRS of \$274,100, compared to a net loss of \$1,217,490 under previous Canadian GAAP. This change was primarily attributable to a \$416,814 decrease in amortization as a result of the impairment impact at the transition date as well as an increase in future income tax expense of \$47,558. The Company also adjusted its share-based payments in order to comply with IFRS standards, which resulted in a \$28,322 decrease in general and administrative expense. Lastly, the acquisition costs related to the business combinations entered into in 2010 were expensed rather than capitalized as previously required under Canadian GAAP. This resulted in an increase in general and administrative expense of \$53,352. In its first quarter 2011 unaudited financial statements, the Company reported a net loss based under IFRS of \$890,614 due to the reduction of impairment loss determined at the opening balance sheet which directly impacted the amortization and deferred tax liability during the year ended December 31, 2010.

Please refer to note 25 of Redishred's 2011 audited consolidated financial statements for a reconciliation of comprehensive loss as reported under previous Canadian GAAP to IFRS for the year ended December 31, 2010.

***Variability of Results with IFRS***

Redishred's consolidated operating results may vary substantially from year to year for a number of reasons, including the following: the current economic environment including volatility of currency exchange rates; the change in value of stock-based compensation; changes in tax legislation or in the application of tax legislation; and activities at Redishred's operating subsidiaries. These activities may include the purchase of businesses; fluctuations in customer demand and employee related costs; changes in the mix of revenue earned; changes in the financing of the business; impairments of goodwill, intangible assets or long lived assets; and litigation.

### ***Elections Applied in Adopting IFRS***

In preparing this consolidated financial report in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

*Business combinations* – IFRS 1 allows for the guidance under IFRS 3 (revised), *Business Combinations*, to be applied either retrospectively or prospectively. Redishred has elected to adopt IFRS 3 (revised) prospectively. Accordingly, all business combinations on or after January 1, 2010 will be accounted for in accordance with IFRS 3 (revised).

*Cumulative translation differences* – IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. Redishred deemed all cumulative translation differences to be zero on transition to IFRS.

In preparing this consolidated financial report in accordance with IFRS 1 the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

*Estimates* – Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP will not be revised for the application of IFRS except where necessary to reflect any differences in accounting policies between IFRS and Canadian GAAP.

### **Future Accounting Policy Changes**

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted unless otherwise noted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- (i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is effective on or after January 1, 2015.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

- (ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

- (iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.
- (iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- (v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- (vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- (vii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.
- (viii) IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

### **Transactions with Related Parties**

Mr. Mark MacMillan, a Director of the Company is the owner of the Tampa, Florida Proshred franchise. Included in accounts and notes receivable at December 31, 2011, is \$1,592 (December 31, 2010 - \$9,141) due from the Director's franchise. During the year ended December 31, 2011, the Company earned royalty and service fee amounts of \$87,165 (December 31, 2010 - \$79,560) from the Director's franchise.

Included in selling, general and administrative expenses for the year ended December 31, 2011 are insurance premium amounts of \$15,317 (December 31, 2010 - \$16,929) paid to Alfred J. Bell & Grant Ltd, owned by a Director of the Company.

All related party transactions have been recorded at their exchange amounts.



## **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.

### **Negative Near-Term Cash Flow**

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 may 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 20 to the 2011 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 total 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.

**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, 2011, there were 28,884,658 issued and outstanding common shares. As at December 31, 2011 there were 1,677,500 options to acquire common shares and 4,000,000 warrants to acquire common shares. There have been 150,000 options granted during the twelve months ended December 31, 2011 (December 31, 2010 – 350,000). As of April 30, 2012 there are 28,884,658 issued and outstanding common shares, 1,677,500 options to acquire common shares and 4,000,000 warrants to acquire common share.

**Governance**

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, 2011. 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.

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DECEMBER 31, 2011**

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Additionally, the Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining Internal controls over financial reporting ("ICFR"). ICFR are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in the Company's ICFR during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our ICFR.

**Contingencies**

On June 18, 2010, three 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 PFC, (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. These franchisees are located in Florida, North Carolina and Wisconsin. On July 13, 2010, one additional franchisee located in New York State joined the aforementioned complaint. On December 31, 2010, in conjunction with the purchase of the Proshred Wisconsin business by the Company, the Wisconsin franchisee permanently withdrew from the legal complaint. Subsequent to year-end, on January 1, 2012, in conjunction with the purchase of the Proshred New York City business by the Company, the New York City franchisee permanently withdrew from the legal complaint. As of January 1, 2012, two franchisees remain in the legal complaint.

The Company intends to vigorously defend against this 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.

**Subsequent Events**

On January 1, 2012, the Company completed the acquisition of the Proshred New York City business from an existing franchisee for an aggregate purchase price of \$2,569,000 USD's. The Company withdrew from its line of credit facility and has obtained vendor financing relating to the purchase of the New York City assets. In conjunction with the purchase of the business, the exiting franchisee withdrew from the legal complaint filed against the Company in June 2010. The New York City operating results will be included in the 2012 financial statements.

On January 31, 2012, the Company announced that it has entered into an agreement with its Chicago South franchisee to franchise the Chicago North territory. The Chicago South franchisee has also renewed his Franchise Agreement for an additional five year period. The Company will recognize \$93,300 USD's in franchise fee revenue in the 1<sup>st</sup> quarter of 2012.

In March 2012, the line of credit was increased by \$0.63 million to \$6.0 million; all other terms of the agreement remained unchanged.

Dated: April 30, 2012



# **RediShred Capital Corp.**

Consolidated Financial Statements  
**December 31, 2011 and 2010 and January 1, 2010**

(expressed in Canadian dollars)

April 30, 2012

### **Management's Responsibility for the Financial Statements**

The accompanying consolidated financial statements of **RediShred Capital Corp.** have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company are responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has audited these consolidated financial statements and their report follows.

(signed) "*Jeffrey Hasham*"  
Chief Executive Officer  
Mississauga, Ontario

(signed) "*Kasia Pawluk*"  
Chief Financial Officer  
Mississauga, Ontario



April 30, 2012

## **Independent Auditor's Report**

### **To the Shareholders of RediShred Capital Corp.**

We have audited the accompanying consolidated financial statements of RediShred Capital Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RediShred Capital Corp. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010, in accordance with International Financial Reporting Standards.

(signed) "*PricewaterhouseCoopers LLP*"

#### **Chartered Accountants**

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*PricewaterhouseCoopers LLP, Chartered Accountants  
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# RediShred Capital Corp.

## Consolidated Statements of Financial Position

As at December 31, 2011 and 2010 and January 1, 2010

(expressed in Canadian dollars)

	December 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash	3,011,786	988,592	1,086,036
Cash attributable to Ad Fund (note 5)	137,818	—	—
Trade receivables (note 6)	460,114	414,910	321,588
Prepaid expenses	63,596	45,021	16,850
Notes receivable from franchisees (note 7)	62,859	33,178	24,445
Income taxes recoverable	17,603	—	11,062
<b>Total current assets</b>	<b>3,753,776</b>	<b>1,481,701</b>	<b>1,459,981</b>
<b>Non-current assets</b>			
Notes receivable from franchisees (note 7)	183,619	108,705	139,781
Equipment (note 9)	565,294	660,506	4,505
Deferred financing charges (note 10)	66,259	88,345	110,431
Intangible assets (note 11)	3,558,806	3,179,759	2,176,038
Goodwill (notes 12 and 13)	878,270	1,112,232	—
<b>Total assets</b>	<b>9,006,024</b>	<b>6,631,248</b>	<b>3,890,736</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities (note 14)	686,167	513,559	340,021
Notes payable	22,028	127,841	—
Deferred revenue	10,170	—	—
Current portion of long-term debt (note 15)	53,176	—	—
<b>Total current liabilities</b>	<b>771,541</b>	<b>641,400</b>	<b>340,021</b>
<b>Non-current liabilities</b>			
Long-term debt (note 15)	5,544,805	2,790,000	—
Deferred tax liability (note 19)	410,110	490,232	551,449
<b>Total liabilities</b>	<b>6,726,456</b>	<b>3,921,632</b>	<b>891,470</b>
<b>Shareholders' Equity</b>	<b>2,279,568</b>	<b>2,709,616</b>	<b>2,999,266</b>
<b>Total liabilities and shareholders' equity</b>	<b>9,006,024</b>	<b>6,631,248</b>	<b>3,890,736</b>

### Commitments and contingency (note 20)

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

### Approved on behalf of the Board of Directors

(signed) "Phillip H. Gaunce" Director

(signed) "Brad Foster" Director

# RediShred Capital Corp.

## Consolidated Statements of Comprehensive Loss For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	2011 \$	2010 \$
Revenue	3,379,383	2,003,763
Corporate operating locations expenses (note 17)	(1,519,232)	(747,065)
Selling, general and administrative expenses (note 18)	(2,729,582)	(2,081,707)
Reversal of impairment of intangible assets (note 13)	836,919	598,603
Impairment of goodwill (note 13)	(247,688)	–
Interest expense	(286,915)	(73,082)
Interest income	2,946	4,945
<b>Loss before income taxes</b>	<b>(564,169)</b>	<b>(294,543)</b>
Income taxes (note 19)	109,086	20,443
<b>Net loss for the year</b>	<b>(455,083)</b>	<b>(274,100)</b>
<b>Other comprehensive income (loss), net of tax</b>		
Foreign currency translation gain (loss)	7,927	(74,450)
<b>Comprehensive loss for the year</b>	<b>(447,156)</b>	<b>(348,550)</b>
<b>Net loss per share</b>		
Basic and diluted	(0.02)	(0.01)
<b>Weighted average number of commons shares outstanding – basic and diluted</b>	<b>28,884,658</b>	<b>28,884,658</b>

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

# RediShred Capital Corp.

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 16)	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total shareholders' equity \$
<b>Balance – January 1, 2010</b>	8,585,808	238,939	–	(5,825,481)	2,999,266
Net loss for the year	–	–	–	(274,100)	(274,100)
Other comprehensive income					
Foreign currency translation loss	–	–	(74,450)	–	<u>(74,450)</u>
Comprehensive loss for the year	–	–	–	–	(348,550)
Stock-based compensation (note 16)	–	58,900	–	–	58,900
<b>Balance – December 31, 2010</b>	<u>8,585,808</u>	<u>297,839</u>	<u>(74,450)</u>	<u>(6,099,581)</u>	<u>2,709,616</u>
Net loss for the year	–	–	–	(455,083)	(455,083)
Other comprehensive income					
Foreign currency translation gain	–	–	7,927	–	<u>7,927</u>
Comprehensive loss for the year	–	–	–	–	(447,156)
Stock-based compensation (note 16)	–	17,108	–	–	17,108
<b>Balance – December 31, 2011</b>	<u>8,585,808</u>	<u>314,947</u>	<u>(66,523)</u>	<u>(6,554,664)</u>	<u>2,279,568</u>

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

**RediShred Capital Corp.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2011 and 2010**

(expressed in Canadian dollars)

	2011 \$	2010 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year before income taxes	(564,169)	(294,543)
Items not affecting cash		
Amortization of equipment and intangible assets	652,330	411,307
Stock-based compensation	17,108	58,900
Unrealized foreign currency loss (gain)	(59,474)	101,434
Impairment of goodwill	247,688	–
Reversal of impairment intangibles	(836,919)	(598,603)
Allowance for doubtful receivables	43,992	23,883
Impairment of note receivable	59,328	11,929
Loss on settlement of pre-existing relationship	–	149,775
Interest income	(2,946)	(4,945)
Interest expense	286,915	73,082
Interest received	2,938	3,472
Interest paid	(267,367)	(60,263)
Income taxes paid	(17,115)	(1,445)
	<u>(437,691)</u>	<u>(126,017)</u>
Net change in non-cash working capital balances		
Decrease (increase) in trade receivables	(79,197)	(127,246)
Decrease (increase) prepaid expenses	(17,555)	(29,546)
Decrease (increase) in income taxes recoverable	–	10,543
Increase (decrease) in deferred revenue	9,888	–
Increase (decrease) in accounts payable and accrued liabilities	165,288	173,021
Increase (decrease) in notes payable	(106,424)	–
	<u>(465,691)</u>	<u>(99,245)</u>
<b>Financing activities</b>		
Borrowings from long-term debt	<u>2,802,902</u>	<u>2,790,000</u>
<b>Investing activities</b>		
Cash paid on acquisition of franchises	–	(2,259,490)
Cash held by Ad Fund	(135,122)	–
Payment of notes payable related to the acquisition of assets	–	(35,135)
Purchase of capital assets	(29,821)	(473,205)
Increase in notes receivable from franchisees	(196,706)	(25,765)
Collection of notes receivable from franchisees	38,284	28,677
	<u>(323,365)</u>	<u>(2,764,918)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>9,348</u>	<u>(23,281)</u>
<b>Net change in cash for the year</b>	2,023,194	(97,444)
<b>Cash – Beginning of year</b>	<u>988,592</u>	<u>1,086,036</u>
<b>Cash – End of year</b>	<u>3,011,786</u>	<u>988,592</u>

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

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

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(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. The Company’s common shares were listed for trading on the TSX Venture Exchange on September 5, 2007, as a Capital Pool Company. The Company’s business, until March 17, 2008, was the identification and evaluation of shredding businesses that could qualify as a Qualifying Transaction under TSX Venture Exchange policies. On March 17, 2008, the Company acquired the shares of Professional Shredding Corporation (“PSC”), which directly and indirectly carries on the business of granting and managing shredding business franchises under the “Proshred” trademark. The acquisition served as the Company’s “Qualifying Transaction” pursuant to the policies of the TSX Venture Exchange and was approved by the TSX Venture Exchange. Redishred’s common shares are listed for trading on the TSX Venture Exchange under the symbol “KUT”. The registered address of the Company is 6790 Century Avenue, Suite 200, Mississauga, Ontario, L5N 2V8.

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 three locations in the United States, as of December 31, 2011 and, (3) licensing internationally.

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at December 31, 2011. Together, Redishred and its subsidiaries are referred to as “the Company.”

The consolidated financial statements of the Company for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Directors on April 30, 2012.

### 2 Basis of presentation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company’s first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In the financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

The annual consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 25, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 25 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010, prepared under Canadian GAAP.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

### 3 Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

#### Basis of measurement

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

#### Basis of consolidation

These consolidated financial statements include the accounts of Redishred and its subsidiaries, which are entities controlled by Redishred. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. All significant intercompany balances and transactions have been eliminated.

The Company's wholly-owned subsidiaries include:

<b>Subsidiary name:</b>	<b>Incorporated in:</b>	<b>Functional currency:</b>
Professional Shredding Corporation	Ontario, Canada	Canadian Dollar
Proshred Franchising Corp.	Delaware, United States	US Dollar
Redishred Holdings US Inc.	Delaware, United States	US Dollar
Redishred Acquisition Inc.	Delaware, United States	US Dollar

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of Redishred.

#### Foreign currency translation

The Company has elected to use the Canadian dollar as its presentation currency. The functional currency of the Company's foreign subsidiaries, Proshred Franchising Corp. ("PFC"), Redishred Holdings US Inc. ("RHI") and Redishred Acquisition Inc. ("RAI") is the US dollar, as it is the currency of the primary economic environment in which it operates. These consolidated financial statements have been translated to the Canadian dollar in accordance with *IAS 21, The Effects of Changes in Foreign Exchange Rates*.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Foreign currency translation** (continued)

The financial statements of subsidiaries that have a functional currency different from that of Redishred Capital Corp. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the statements of financial position and income and expenses - at the average rate of the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as foreign currency translation adjustments. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency are recognized in the statement of income in foreign exchange gain (loss).

**Cash**

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to. Refer to note 23 for cash balances by operating segment.

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Transaction costs in respect of an asset or liability not recorded at fair value through net earnings are added to the initial carrying amount. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's financial instruments categorized as loans and receivables are comprised of cash, trade receivables and note receivables from franchisees. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, these instruments are accounted for at amortized cost using the effective interest rate method less a provision for impairment.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Financial instruments**

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and accrued liabilities and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

**Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment loss include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest or principal payments; and
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

If such evidence exists, the Company recognizes an impairment loss as follows:

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.



**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Equipment and amortization**

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost consists of expenditures directly attributable to the acquisition of the asset including costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Maintenance and repair costs are expensed as incurred.

Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	2 years
Furniture and fixtures	3 years
Bins and shredding containers	5 years
Shredding vehicles – chassis	3-10 years
Shredding vehicles – box	3-10 years
Recycling equipment	2 years
Vehicles	3 years

The Company allocated the amount initially recognized in respect of an item of equipment to its significant parts and depreciates separately each such part. The estimated useful lives and amortization method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

**Intangible assets**

Identifiable intangible assets

The Company's identifiable intangible assets are stated at cost less accumulated amortization and impairment losses. These assets are capitalized and amortized on a straight-line basis in the statement of comprehensive loss over their estimated useful lives over the term of up to 10 years as follows:

Trademarks and intellectual property	Up to 10 years
Franchise agreements	Up to 10 years
Re-acquired franchise rights	Up to 10 years
Proshred system	Up to 10 years
Customer relationships	Up to 10 years
Computer software	Up to 3 years

The assessment of the useful lives of the identifiable intangible assets is reviewed annually. Changes in useful lives or the useful life from indefinite to finite are made on a prospective basis.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

### 3 Significant accounting policies (continued)

#### Intangible assets (continued)

##### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination.

##### Impairment of non-financial assets

Equipment and identifiable definite life intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). An impairment loss is recognized when the carrying value of an asset or CGU exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use and fair value less costs to sell, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Impairment of goodwill is tested at a level where goodwill is monitored for internal management purposes. Therefore, goodwill may be assessed for impairment at the level of either an individual CGU or a group of CGUs which are expected to benefit from the synergies of the combination. The carrying amount of a CGU is compared to its recoverable amount, which is the higher of its value-in-use or fair value less costs to sell, to determine if an impairment exists. Impairment losses for goodwill are not reversed in future periods.

Impairment losses are recognized in the Statement of Comprehensive Loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. The reversal is limited to restoring the carrying amount such that it does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

##### Provisions

Provisions for legal claims are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted where the effect is material.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive loss or direct in equity, in which case the income tax is also recognized directly in other comprehensive loss or equity, respectively.

(i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

(ii) Deferred income taxes

Deferred income taxes is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income taxes are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income tax assets and liabilities are presented as non-current and determined on a non-discounted basis. Deferred income taxes are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at the end of the reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the income tax asset to be recovered.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Revenue recognition**

(i) Franchising and licensing business

The Company earns revenue from initial franchise and license fees paid to secure territories for a specific period and from royalties and service fees paid as a percentage of the franchisees monthly sales volumes. The initial franchise fee is recognized as revenue when the franchisee has paid their initial franchise fee, has fully executed a franchise agreement and has been provided the required training. Initial licence fees are recognized as revenue when the licensee has fully executed a licence agreement. Royalties and service fees revenue is accrued monthly based on sales reported by franchisees or licensees. Franchise fees, royalties and service fees are recognized when collection is reasonably assured. Interest income on notes receivable is recognized in the month earned.

(ii) Corporate operations – shredding and recycling services

The Company earns revenue from providing shredding services to clients and by way of the sale of recycled paper to recycling facilities. Shredding service revenue is recorded when the shredding service has been performed and the Company has provided a certificate of destruction and an invoice to the client, and collections are reasonably assured. Recycling revenue is recognized when the collected paper has been delivered to the recycling facility and collections are reasonably assured.

**Share-based payments**

The Company issues share-based awards to certain employees and non-employee directors whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at least annually, with any changes in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Business combinations**

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* are recognized at their fair value at the acquisition date except for noncurrent assets that are classified as held for sale in accordance with IFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less cost to sell.

**Deferred financing charges**

Deferred financing charges consist of costs incurred relating to the issuance of a revolving line of credit obtained on December 23, 2009 and are amortized over the term of the facility which expires on November 27, 2014.

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net loss for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments such as options and warrants. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Since the Company has losses, the exercise of outstanding stock options has not been included in the calculation of diluted loss per share as it would be anti-dilutive.

**Accounting standards and amendments issued but not yet adopted**

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

- (i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is effective on or after January 1, 2015.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

### 3 Significant accounting policies (continued)

#### Accounting standards and amendments issued but not yet adopted (continued)

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

- (ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation - Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.
- (iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.
- (iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.
- (v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- (vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.
- (vii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**3 Significant accounting policies** (continued)

**Accounting standards and amendments issued but not yet adopted** (continued)

(viii) IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

**4 Critical accounting estimates and judgements**

The preparation of financial statements requires management to use judgment in applying its accounting policies and 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 and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. 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.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the financial statements:

i) Impairment and reversals of 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 and seven-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 or reversal of impairment. Refer to note 13 for estimates and assumptions made.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

### 5 Cash attributable to Ad Fund

The Company manages an advertising fund (the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising and marketing programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a percentage of each location's revenue. As at December 31, 2011, the Ad Fund was in a net surplus position of \$160,100 (December 31, 2010 - \$51,728; January 1, 2010 - deficit of \$36,486), with cash attributable to the Ad Fund amounting to \$137,818 (December 31, 2010 - \$51,728, included in the Company's cash balance; January 1, 2010 - \$nil), offset by a corresponding amount included in accounts payable and accrued liabilities.

### 6 Trade receivables

Trade receivables include receivables from franchisees and receivables from shredding customers. The trade receivables as at December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade receivables	549,713	455,672	321,588
Less: Allowance for doubtful accounts	89,599	40,762	—
Trade receivables – net	460,114	414,910	321,588

### 7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees, are guaranteed by the respective owners of the franchises, bear interest rates ranging from 5.25% to 10.25% per annum with monthly blended payments of principal and interest ranging from US\$526 to US\$3,060, commenced between dates ranging from November 1, 2008 to April 1, 2011 and mature between dates ranging from March 15, 2012 to March 15, 2015.

The amounts receivable as at December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Principal	361,264	194,670	207,559
Less: Allowance for impairment	114,786	52,787	43,333
Less: Current portion	62,859	33,178	24,445
	183,619	108,705	139,781



**RediShred Capital Corp.**  
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(expressed in Canadian dollars)

**7 Notes receivable from franchisees** (continued)

The Company has recorded an allowance for impairment against one note receivable based on the present value of expected future cash flows using a discount rate equal to the effective interest rate on the note receivable prior to the Company ceasing to accrue interest charges. Judgment was exercised by management in making this estimate. As such, actual losses could differ from the estimate.

Notes receivable from franchisees past due but not impaired comprise:

	Up to 30 days \$	Up to 60 days \$	60 days or more \$	Total \$
At December 31, 2011	–	3,086	31,878	34,964
At December 31, 2010	2,759	2,736	48,002	53,497
At January 1, 2010	2,618	2,596	24,785	29,999

Under the franchise agreement, the Company has the right of first refusal to purchase the business of a franchisee at fair market value. Since the value of the notes receivable past due, but not impaired, is lower than the value of the respective franchisee's business, no impairment has been recorded.

The following is a reconciliation of the allowance for credit losses related to the notes receivable from one franchisee:

	December 31, 2011 \$	December 31, 2010 \$
<b>Opening balance</b>	52,787	43,333
Additions	61,999	9,454
<b>Closing balance</b>	<u>114,786</u>	<u>52,787</u>

**8 Acquisition of franchises**

During the year ended December 31, 2010, the Company, through its wholly-owned subsidiary, Redishred Acquisition Inc., acquired the following franchises:

- Proshred Syracuse, on April 30, 2010;
- Proshred Albany, on June 30, 2010; and
- Proshred Milwaukee, on December 31, 2010.

The Company conducted the acquisitions noted above to increase the Company's cash flows, and to establish regional headquarters in the markets chosen to allow for further expansion by way of additional acquisitions or by way of establishing satellite offices in nearby cities.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

### 8 Acquisition of franchisees (continued)

The business combinations resulted in the recognition of goodwill of \$1,117,888, determined on the basis of an allocation of the purchase price to the assets acquired (including all identifiable intangible assets arising from the purchases) based on their estimated fair value at the date of each respective acquisition.

Goodwill from each business combination represents synergies the Company is expected to generate; the assembled workforces of skilled employees that are knowledgeable about the Company's procedures and possess expertise in certain fields that are important to continued profitability and growth; the rights to the entire geographical areas of Syracuse, Albany and the state of Wisconsin; the growth potentials in outlying areas; and the ability to secure regional contracts.

The following table outlines the assets purchased and consideration given on the closing date of each acquisition.

	Syracuse \$	Albany \$	Milwaukee \$	Total \$
<b>Assets acquired</b>				
Equipment	65,113	6,659	199,800	271,572
Customer relationships	25,140	62,880	189,715	277,735
Re-acquired franchise rights	80,448	272,480	189,715	542,643
Goodwill	131,035	95,192	891,661	1,117,888
Other current assets	1,203	1,769	12,626	15,598
	<u>302,939</u>	<u>438,980</u>	<u>1,483,517</u>	<u>2,225,436</u>
<b>Consideration given</b>				
Cash	277,743	401,794	1,535,439	2,214,976
Contingent consideration	35,196	37,186	–	72,382
Settlement of contingency	(10,000)	–	–	(10,000)
Promissory notes	–	–	97,853	97,853
Settlement of pre-existing relationship (note 20)	–	–	(149,775)	(149,775)
	<u>302,939</u>	<u>438,980</u>	<u>1,483,517</u>	<u>2,225,436</u>
Acquisition costs (expensed in statement of comprehensive loss)	<u>12,216</u>	<u>10,381</u>	<u>29,171</u>	<u>51,768</u>

The Company translated the fair values of all assets acquired using the exchange rate on the date of each respective acquisition. The Syracuse acquisition was translated at \$1USD = \$1.0056CAD; the Albany acquisition was translated at \$1USD = \$1.0480CAD; the Milwaukee acquisition was translated at \$1USD = \$0.9985CAD.

The Company is committed to pay contingent consideration in respect of both the Syracuse and Albany acquisitions, if either of the businesses achieves certain performance targets on a quarterly basis for a period of one year. In accordance with IFRS 3, the Company has recorded a liability for the estimated fair value of the contingent consideration at the respective acquisition dates. Subsequent to the acquisitions, the Company settled the Syracuse contingent consideration with a payment of US\$25,000. The Albany contingent consideration is based on actual results of the business and paper prices on a quarterly basis from the second quarter of 2010 to the second quarter of 2011. The Company made one payment toward the Albany contingent consideration totalling US\$9,091 in October 2010. The remaining two out of three payments were made in 2011 and were determined using actual tonnage produced by the Albany location multiplied by the increase in paper prices over the one-year period following the acquisition.

**RediShred Capital Corp.**  
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**8 Acquisition of franchisees** (continued)

The fair values of the assets were determined on the basis of observable market prices, where possible. The fair values of intangible assets and goodwill were determined using income-oriented approaches involving (1) estimating the level of future cash flows anticipated from the customer relationships in excess of the cash flow that might otherwise be expected to be generated by the franchise if it did not have access to these existing customer relationships, (2) using a multi-period excess earnings method to value reacquired franchise rights, and (3) the replacement cost method to value the assembled workforce as at the valuation dates.

**9 Equipment**

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2010	77,436	48,354	–	–	–	–	–	125,790
Additions	6,608	–	11,145	139,259	305,710	–	–	462,722
Acquisitions	6,500	5,500	19,750	74,000	159,000	6,356	–	271,106
Foreign exchange	–	(744)	(42)	(320)	(697)	–	–	(1,803)
As at December 31, 2010	90,544	53,110	30,853	212,939	464,013	6,356	–	857,815
Additions	702	–	19,728	2,691	–	–	6,700	29,821
Foreign exchange	122	93	903	3,991	8,597	106	114	13,926
As at December 31, 2011	91,368	53,203	51,484	219,621	472,610	6,462	6,814	901,562
<b>Accumulated depreciation and impairment</b>	<b>Computer equipment</b>	<b>Furniture &amp; fixtures</b>	<b>Bins &amp; shredding containers</b>	<b>Shredding vehicles - chassis</b>	<b>Shredding vehicles - box</b>	<b>Recycling equipment</b>	<b>Vehicles</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2010	75,983	45,302	–	–	–	–	–	121,285
Depreciation	5,421	2,883	2,449	19,039	44,739	1,589	–	76,120
Foreign exchange	–	–	–	(29)	(67)	–	–	(96)
As at December 31, 2010	81,404	48,185	2,449	19,010	44,672	1,589	–	197,309
Depreciation	6,808	1,811	8,396	37,387	75,474	3,177	2,233	135,286
Foreign exchange	252	43	87	1,184	1,988	81	38	3,673
As at December 31, 2011	88,464	50,039	10,932	57,581	122,134	4,847	2,271	336,268
<b>Net book value</b>								
As at January 1, 2010	1,453	3,052	–	–	–	–	–	4,505
As at December 31, 2010	9,140	4,925	28,404	193,929	419,341	4,767	–	660,506
As at December 31, 2011	2,904	3,164	40,552	162,040	350,476	1,615	4,543	565,294

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**9 Equipment** (continued)

The Company acquired equipment as part of the franchise acquisitions entered into during the year ended December 31, 2010 (see note 8). The Company purchased bins, shredding containers and a vehicle during the year ended December 31, 2011. The Company purchased computer equipment, bins and shredding containers and shredding vehicles during the year ended December 31, 2010. The foreign exchange adjustment is a result of the translation of corporate equipment from US dollars to Canadian dollars at December 31, 2011, December 31, 2010 and January 1, 2010. Depreciation related to the corporate stores is included in the statement of comprehensive loss in "corporate operating expenses." Depreciation related to the franchising and licensing business is included in the statement of comprehensive loss in "selling, general & administrative expenses."

**10 Deferred financing charges**

Effective November 27, 2009, the Company arranged a \$4 million revolving line of credit facility with a five-year term (see note 15). Costs associated with this facility of \$110,431, including warrants issued (see note 16 (e)), are being charged to expenses over the five-year term of the facility.

**RediShred Capital Corp.**  
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**11 Intangible assets**

Cost	Franchise	Proshred	Computer	Trademarks and intellectual	Re-acquired	Customer	Total
	agreements	system	software	property	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2010	2,883,800	978,000	432,534	1,672,500	–	–	5,966,834
Acquisitions	–	–	–	–	530,000	275,000	805,000
Foreign exchange	(139,873)	–	–	–	(795)	(412)	(141,080)
As at December 31, 2010	2,743,927	978,000	432,534	1,672,500	529,205	274,588	6,630,754
Foreign exchange	46,649	–	–	–	9,805	5,088	61,542
As at December 31, 2011	2,790,576	978,000	432,534	1,672,500	539,010	279,676	6,692,296

Accumulated amortization and impairment	Franchise	Proshred	Computer	Trademarks and intellectual	Re-acquired	Customer	Total
	agreements	system	software	property	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2010	999,177	878,256	411,437	1,501,926	–	–	3,790,796
Amortization	219,302	12,214	18,083	20,887	28,571	4,746	303,803
Reversal of impairment	(118,525)	(201,815)	–	(274,637)	–	–	(594,977)
Foreign exchange	(48,528)	–	–	–	(244)	145	(48,627)
As at December 31, 2010	1,051,426	688,655	429,520	1,248,176	28,327	4,891	3,450,955
Amortization	236,445	40,374	3,014	59,208	132,857	27,492	499,390
Reversal of impairment	(75,546)	(322,860)	–	(439,359)	–	–	(837,765)
Foreign exchange	17,425	–	–	–	2,783	662	20,870
As at December 31, 2011	1,229,750	406,169	432,534	868,025	163,967	33,045	3,133,490

**Net book value**

As at January 1, 2010	1,884,623	99,744	21,097	170,574	–	–	2,176,038
As at December 31, 2010	1,692,501	289,345	3,014	424,324	500,878	269,697	3,179,759
As at December 31, 2011	1,560,826	571,831	–	804,475	375,043	246,631	3,558,806

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**11 Intangible assets** (continued)

As a result of the acquisition of the Syracuse, Albany, and Milwaukee locations, customer relationships and re-acquired franchise rights were recorded as intangible assets in 2010. There were no additions to intangible assets during the year ended December 31, 2011. The foreign exchange adjustment is a result of the translation of intangible assets denominated in US dollars to Canadian dollars at December 31, 2011 and December 31, 2010.

Amortization of reacquired franchise rights and customer relationships for the year is included in the statement of comprehensive loss in “corporate operating expenses” and amortization of the remaining intangible assets is included in the statement of comprehensive loss in “selling, general and administrative expenses.” The Company’s franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company’s operations in the US.

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. At December 31, 2011, the Company recorded a reversal of a portion of the previously reported impairment of \$836,919 (December 31, 2010 - \$598,603). At January 1, 2010, the Company recorded an impairment loss of \$2,388,818.

**12 Goodwill**

The following table presents goodwill for the years ended December 31, 2011 and 2010:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Opening balance</b>	1,112,232	–
Acquisitions	–	1,113,082
Impairment of goodwill (note 13)	(250,494)	–
Foreign currency translation	16,532	(850)
<b>Closing balance</b>	<b>878,270</b>	<b>1,112,232</b>

**13 Impairment of goodwill and long-lived assets**

The Company performs an impairment test of long-lived assets when there is an indication of 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. Goodwill is tested for impairment at least annually.

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**13 Impairment of goodwill and long-lived assets** (continued)

The Company has identified each franchise and corporate location as being a CGU and has completed an impairment test for each CGU, comparing the carrying amount of the CGU with the recoverable amount of the CGU. The Company's unallocated assets consist of computer equipment, furniture, computer software, the Proshred system, trademarks and intellectual property. The carrying amount of the group of CGUs that include the unallocated corporate assets is compared with the recoverable amount of the group of CGUs in testing for impairment.

The Company performed its annual test for goodwill impairment in accordance with its policy described in note 3. The Company compared the aggregate recoverable amount of the assets included in the CGUs of the Syracuse, Albany and Milwaukee locations to their respective carrying amounts. The recoverable amount of the Milwaukee CGU was less than its carrying amount and the Company recorded an impairment loss of \$247,688 at December 31, 2011. The impairment loss was allocated to the goodwill of the Milwaukee CGU. Based on sensitivity analysis, a reasonable possible change in assumptions would cause the impairment loss to increase or decrease by a range of 16% to 30%.

The carrying value of goodwill for each CGU is identified as follows:

<b>Cash Generating Unit</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Syracuse	132,465	130,055
Albany	92,376	90,696
Milwaukee	653,429	891,481
<b>Total goodwill</b>	<b>878,270</b>	<b>1,112,232</b>

The Company assessed its impairment indicators at January 1, 2010, December 31, 2010 and December 31, 2011. The Company also assessed its indicators of reversals of impairment at December 31, 2010 and 2011. At each reporting period, there was an indication of impairment or reversal of impairment on certain CGUs to warrant an analysis to be performed.

The recoverable amount of each CGU has been determined based on a fair value less cost to sell ("FVLCTS") calculation, as this was determined to be higher than value-in-use. The FVLCTS calculation uses cash flow projections based on financial budgets approved by management, less estimated costs to sell. The Company then performed the impairment test for the unallocated corporate assets by aggregating the unallocated corporate assets, and assessed whether impairment exists at a Company-wide level. The recoverable amount was determined using FVLCTS, as this was determined to be higher than the value-in-use. The FVLCTS calculation uses cash flow projections based on financial budgets approved by management, less estimated costs to sell.

The key assumptions included the following:

- i. Revenue growth of each franchise and corporate location, which reflect the past experience of each location. Management has used growth rate ranges of 2.5% to 30% based on prior results of existing franchisees and the franchisees time in the system. During the first five years of a franchisee's operation, higher growth rates are typically achieved.

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**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**13 Impairment of goodwill and long-lived assets** (continued)

- ii. Post-tax discount rates between 16% to 20% (December 31, 2010 and January 1, 2010 – 18% to 22%) were used and reflect the risks specific to each relevant CGU depending on factors such as period of establishment in the respective market, nature of customer base and degree of competition.
- iii. Cash flows from franchising are based on the current royalty rate charged to each franchise, as the rates are expected to continue in the future.
- iv. For franchise CGUs, a cash flow period of up to 7 years was used, covering the remaining useful life of the franchise agreements. Management believes that this period is reasonable in light of the contractual terms of the franchise agreements as this is consistent with the assessed remaining useful life of the franchise agreements as originally determined.
- v. For corporate location CGUs, a 5 year cash flow period was used based on financial budgets approved by management including growth rates of 2.5% and a perpetual growth rate of 2.5%. Revenue growth was determined based on the Company's internal budget and considered past experience, and economic, industry and market trends. The growth rate does not exceed the long-term average growth rates projected for the document destruction industry.
- vi. For corporate location CGUs, budget operating margins, which were determined using average operating margins achieved in the periods immediately before the budget period. Management believes the operating margins are reasonably achievable.

Based on the impairment review performed at January 1, 2010, the recoverable amount of certain CGUs was less than their carrying amounts and the Company recorded an impairment loss of \$2,388,818. At December 31, 2010 and December 31, 2011, the Company determined the recoverable amount of certain CGUs was higher than their carrying amounts and recorded a reversal of impairment of \$598,603 and \$836,919, respectively. The reversals of impairment were limited to restoring the carrying amounts such that they did not exceed the carrying amounts that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

**14 Accounts payable and accrued liabilities**

As at December 31, 2011, December 31, 2010 and January 1, 2010, accounts payable and accrued liabilities are comprised of:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	\$	\$	\$
Accounts payable	370,936	329,845	157,506
Accrued liabilities	315,231	183,714	182,515
<b>Accounts payable and accrued liabilities</b>	<b>686,167</b>	<b>513,559</b>	<b>340,021</b>



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**Notes to Consolidated Financial Statements**  
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**15 Long-term debt**

As at December 31, 2011 and December 31, 2010 long-term debt is comprised of:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
	<b>\$</b>	<b>\$</b>
Line of credit	5,370,000	2,790,000
Truck loans	227,981	-
Total long-term debt	5,597,981	2,790,000
Less: current portion	53,176	-
<b>Total</b>	<b>5,544,805</b>	<b>2,790,000</b>

The line of credit was entered into 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. Deferred financing charges in respect of this facility will be charged to expense over the term of the facility (see note 10). During the year ended December 31, 2010, the Company drew from its line of credit in order to finance the purchase of the Syracuse, Albany and Milwaukee businesses; new shredding vehicles for the Syracuse and Albany markets; and initial working capital for the acquired businesses. On October 31, 2011, the line of credit limit was increased to \$5.37 million repayable on November 27, 2014; all other terms of the agreement remained unchanged. During December 2011, the Company drew from its line of credit in order to finance the purchase of the New York City business on January 1, 2012.

On November 11, 2011, the Company entered into a loan and security agreement in the amount of US\$240,000, repayable on a monthly basis in the amount of US\$5,690 principal and interest until 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\$331,967.

**16 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 years ended December 31, 2011 and December 31, 2010, there were no changes in issued common shares of the Company.

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**16 Capital stock** (continued)

**b) Issued and fully paid** (continued)

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

	Common stock		Warrants		Total \$
	Number	\$	Number	\$	
Balance, January 1, 2010,					
December 31, 2010 and					
December 31, 2011	28,884,658	8,297,602	4,000,000	288,206	8,585,808

**c) Weighted average common shares**

The basic weighted average number of common shares outstanding for the years ended December 31, 2011, was 28,884,658 (December 31, 2010 - 28,884,658).

**d) Stock options**

Under the terms of the stock option plan:

- i) From time to time, the Company designates eligible participants to whom options will be granted and the number of shares to be optioned to each;
- ii) Eligible participants are persons who are directors, officers, employees and technical consultants of the Company;
- iii) Options to purchase shares are non-transferable and are exercisable for a period of up to five years from the date of grant;
- iv) Shares to be optioned shall not exceed 2,888,465 and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;
- v) The option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Venture Exchange; and
- vi) The term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted from time to time by the Toronto Venture Exchange.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**16 Capital stock** (continued)

**d) Stock options** (continued)

The following table summarizes the movements in the Company's stock options during the years ended:

	December 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – Beginning of year	1,687,500	0.26	1,673,349	0.34
Granted	150,000	0.12	360,000	0.14
Expired	<u>(160,000)</u>	0.35	<u>(345,849)</u>	0.50
Outstanding – End of year	<u>1,677,500</u>	0.24	<u>1,687,500</u>	0.26

The following table summarizes the stock options outstanding as at:

		December 31, 2011			December 31, 2010		
Exercise price \$	Issue date	Number of options outstanding	Weighted average contractual life (yrs)	Options exercisable	Number of options outstanding	Weighted average contractual life (yrs)	Options exercisable
0.20	Aug 29, 2007	975,000	0.66	975,000	975,000	1.66	975,000
0.52	Mar 17, 2008	262,500	1.21	197,500	352,500	2.21	177,500
0.14	May 27, 2010	280,000	2.40	280,000	350,000	3.40	350,000
0.15	Oct 19, 2010	10,000	3.81	2,500	10,000	4.81	–
0.12	May 2, 2011	140,000	3.34	140,000	–	–	–
0.10	Sept 26, 2011	5,000	4.74	–	–	–	–
0.10	Oct 26, 2011	5,000	4.82	–	–	–	–
		<u>1,677,500</u>	1.31	<u>1,595,000</u>	<u>1,687,500</u>	2.16	<u>1,502,500</u>

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**16 Capital stock** (continued)

**d) Stock options** (continued)

The compensation charge for the options issued was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Expected option life	4 years	4 years
Risk-free interest rate	2.28%	2.78%
Expected dividend yield	\$nil	\$nil
Expected volatility	200%	214%

150,000 options were granted during the year ended December 31, 2011 (2010 - 360,000). The weighted average grant-date fair value of options granted during 2011 amounted to \$0.12 per option. The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$17,108 (2010 - \$58,900).

**e) Warrants**

The Company issued two tranches of warrants in 2009. The first tranche was issued in connection with the private placement and the second related to the line of credit obtained. Details are as follows:

	<b>2011</b>			
	<b>Exercise price</b>	<b>Number of warrants outstanding or to be issued</b>	<b>Remaining contractual life</b>	<b>Assigned value</b>
	\$			\$
Tranche 1	0.25 to 0.45	3,000,000	2.98 years	204,406
Tranche 2	0.25 to 0.45	1,000,000	2.90 years	83,800

The fair values for both tranches of warrants were determined using the following assumptions under the Black-Scholes option pricing model:

Expected warrant life	3 years
Risk-free interest rate	1.06%
Expected dividend yield	\$nil
Expected volatility	234%

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**16 Capital stock** (continued)

**e) Warrants** (continued)

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

Tranches 1 and 2 of warrants expire on November 27, 2014 and December 23, 2014, respectively.

**17 Corporate operating locations expenses by nature**

The corporate operating locations expenses of the Company are broken down as follows:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Shredding vehicle and related expenses	358,915	147,850
Employee wages expense	572,507	215,203
Employee benefit expense	92,303	29,095
Office and administration expense	206,418	99,410
Depreciation – equipment	130,536	71,342
Amortization – intangible assets	158,553	34,390
Loss on settlement of pre-existing relationship	–	149,775
<b>Total corporate operating expenses</b>	<b>1,519,232</b>	<b>747,065</b>

During the year ended December 31, 2011, the Company operated three corporate locations – Syracuse, Albany and Milwaukee. During the year ended December 31, 2010, the Company operated two corporate locations – Syracuse and Albany. The Syracuse location operated for the 8 months ended December 31, 2010 and the Albany location operated for the 6 months ended December 31, 2010.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

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

The selling, general and administrative expenses of the Company are broken down as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Employee wages expense	770,867	755,312
Employee benefits expense	54,179	62,136
Share-based compensation	17,108	58,900
Professional fees	854,674	268,875
Technology	111,558	108,091
Rent and office expense	75,302	63,429
Advertising	76,083	44,368
Selling and development	203,793	64,234
Bad debt expense	103,320	35,811
Amortization of deferred financing charges	22,086	22,086
Depreciation – equipment	3,014	6,520
Amortization – intangible assets	338,141	276,967
Foreign exchange gain/(loss)	(66,163)	143,600
Other	165,620	171,378
<b>Total selling, general and administrative expenses</b>	<u>2,729,582</u>	<u>2,081,707</u>

### Compensation of key management

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Wages and benefits	658,336	638,926
Share-based compensation	16,234	44,109
<b>Total</b>	<u>674,570</u>	<u>683,035</u>

Key management personnel are comprised of the Company's Board of Directors, Chief Executive Officer, Chief Financial Officer, President, Vice President of Operations, and former Chief Operating Officer.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements

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### 19 Income taxes

#### Reconciliation of total tax recovery

The effective rate on the Company's loss before income tax differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Loss before income taxes	(564,169)	(294,543)
Income tax rate	28%	31%
Expected income tax recovery based on above rates	(159,000)	(91,300)
Non-deductible expenses	12,000	22,000
Unrecognized deductible temporary differences and other	37,914	48,857
Income tax recovery	<u>(109,086)</u>	<u>(20,443)</u>

The Company's statutory tax rate decreased to 28.25% in 2011 from 31% in 2010 as a result of a change in tax legislation.

	<u>2011</u>	<u>2010</u>
	\$	\$
<b>Provision for (recovery of) income taxes is comprised of:</b>		
Current income taxes	(17,603)	20,000
Deferred income taxes	(91,483)	(40,443)
	<u>(109,086)</u>	<u>(20,443)</u>

#### Deferred tax

Components of the net deferred income tax liability are as follows:

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
	\$	\$	\$
<b>Deferred income tax liability:</b>			
Intangible assets	(468,110)	(508,232)	(565,449)
Equipment	—	(33,000)	—
<b>Deferred income tax asset:</b>			
Other	58,000	51,000	14,000
<b>Net deferred income tax liability</b>	<u>(410,110)</u>	<u>(490,232)</u>	<u>(551,449)</u>

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

### 19 Income taxes (continued)

The following reflects the balance of temporary differences for which no deferred income tax asset has been recognized as realization is not considered probable:

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Non-capital losses	5,815,000	4,917,000	3,764,000
Intangible assets and equipment	835,000	1,597,000	2,073,000
Tax deductible share issue costs	153,000	223,000	270,000

The Company has incurred Canadian non-capital losses of \$5,629,000 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2031. The Company has incurred US non-capital losses of \$186,000 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2031.

### 20 Commitments and contingency

#### Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2013. Additionally, the Company leases facilities in Albany, which expires on March 31, 2013, Syracuse, which expires on August 31, 2015 and Milwaukee, which expires on May 31, 2013. Certain contracts include renewal options for various periods of time. For the year ended December 31, 2011, the Company incurred \$116,458 (December 31, 2010 - \$83,809) 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	156,372
Between 1 and 5 years	140,232
More than 5 years	—
<b>Total</b>	<u>296,604</u>



**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**20 Commitments and contingency** (continued)

**Contingency**

On June 18, 2010, three 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 PFC, (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. These franchisees are located in Florida, North Carolina and Wisconsin. On July 13, 2010, one additional franchisee located in New York State joined the aforementioned complaint. On December 31, 2010, in conjunction with the purchase of the Proshred Wisconsin business by the Company, the Wisconsin franchisee permanently withdrew from the legal complaint. On January 1, 2012, in conjunction with the purchase of the Proshred New York City business by the Company, the New York City franchisee permanently withdrew from the legal complaint. As of January 1, 2012, two franchisees remain in the legal complaint.

The Company intends to vigorously defend against this 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.

**21 Financial instruments and fair values**

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

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

**Interest rate risk**

The Company's cash is subject to cash flow risk, as it earns interest at prevailing and fluctuating market rates. The fixed rate notes receivable from franchisees, and the line of credit facility that has a fixed interest rate of 10% per annum and truck loans that have a fixed interest rate of 8.14% per annum, are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**21 Financial instruments and fair values** (continued)

**Credit risk**

In accordance with its investment policy, the Company maintains cash deposits with banks. The credit risk on cash is limited because the counterparties are banks with high-credit ratings assigned by international credit-rating agencies.

Receivables from franchisees

The accounts 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 were conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of December 31, 2011, 6 franchisees accounted for 73% of the accounts receivable balance (December 31, 2010 - 6 franchises accounted for 61%). For the year ended December 31, 2011, 3 franchisees accounted for 28% of the Company's revenues (December 31, 2010 - 3 franchisees accounted for 32%). As of December 31, 2011, 37% of accounts receivable were over 90 days old and related to two franchises (December 31, 2010 - 26% of accounts receivable were over 90 days old and related to one franchise). Subsequent to year-end, a significant portion of the accounts receivable over 90 days old was settled as a result of the purchase of the New York City franchise, see note 26.

The aging analysis for trade accounts receivable from franchisees past due but not impaired and impaired is as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
	\$	\$	\$
<b>Past due but not impaired</b>			
Up to 3 months	10,420	—	2,332
3 to 6 months	83,580	21,462	5,922
Over 6 months	—	—	—
<b>Impaired</b>			
Up to 3 months	6,912	—	—
3 to 6 months	12,049	—	—
Over 6 months	67,803	40,762	—

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
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(expressed in Canadian dollars)

**21 Financial instruments and fair values** (continued)

The following is a reconciliation of the allowance for credit losses from trade receivables from franchisees:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	\$	\$
<b>Opening balance</b>	40,762	–
Additions	44,552	40,823
Foreign exchange	1,450	(61)
<b>Closing balance</b>	<u>86,764</u>	<u>40,762</u>

Also refer to note 7 for details of notes receivable from franchisees and impairments recorded.

Receivables from shredding customers

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 customers are required to make payments for services by way of preapproved credit card, and credit is extended only after a credit assessment is conducted. In addition, the receivable balances with customers are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. At December 31, 2011 and December 31, 2010, no customer accounted for more than 10% of the accounts receivable balance. For the years ended December 31, 2011 and December 31, 2010, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2011, 10% of accounts receivable in this category was over 90 days old. The Company has recorded an allowance of \$2,834 for credit losses from accounts receivable from shredding customers. The Company does not have any reason to believe it will not collect all remaining balances.

The aging analysis for accounts receivable from shredding customers past due is as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	\$	\$
<b>Past due but not impaired</b>		
Up to 3 months	18,194	16,658
3 to 6 months	33,663	9,321
Over 6 months	–	–
<b>Impaired</b>		
3 to 6 months	2,834	–
Over 6 months	–	–

**RediShred Capital Corp.**  
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(expressed in Canadian dollars)

**21 Financial instruments and fair values** (continued)

**Foreign exchange risk**

Since the Company operates internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations related to non-intragroup transactions. Fluctuations in the Canadian dollar (CAD) and the US dollar (USD) exchange rates could have a potentially significant impact on the Company's results of operations. If there were a foreign exchange rate variation of -5% (depreciation of the USD) and +5% (appreciation of the USD) against the CAD, from a period-end rate of USD\$1.00 = CAD\$1.0170, the total impact to net loss would be a decrease/increase of approximately \$150,000.

**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 \$6.8 million at December 31, 2011. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The Company does not have any financial covenants to comply with.

The current liabilities of \$771,541 at December 31, 2011 (December 31, 2010 - \$641,400), are due to be settled within one year from the balance sheet date.

At December 31, 2011, the Company has cash of \$3,011,786 and working capital of \$2,982,235. The Company also has access to a \$5.37 million line of credit, of which \$5.37 million has been drawn as of December 31, 2011. \$2.5 million of the cash was used to purchase the New York City business from a current franchisee on January 1, 2012. The line of credit is repayable on November 27, 2014 and interest payments are due semi-annually. Subsequent to year-end, the Company increased its line of credit to \$6 million (see note 26).

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements

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

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date, and includes both principal and interest cash flows for notes payable and long-term debt.

<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	686,167	–	–	–
Notes payable	–	–	20,340	–
Long-term debt	17,358	52,075	5,566,729	–

<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	–	–	1,688	–
Long-term debt	4,427	581,101	1,581,946	–

#### 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	686,167	–	–	–
Notes payable	–	–	22,028	–
Long-term debt	21,785	633,176	7,148,675	–

#### Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, trade receivables, trade payables and accrued liabilities, which are all carried at amortized cost, approximate their fair value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees (note 7), are made as at a specific point in time based on estimates using present value or other valuation techniques. The carrying value of the Company's notes payable and long-term debt approximates fair value as the rates are similar to rates currently available to the Company.

These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at December 31, 2011, amounted to \$246,477 (December 31, 2010 - \$141,883; January 1, 2010 - \$164,226) with fair value estimated to amount to \$225,081 (December 31, 2010 - \$121,008; January 1, 2010 - \$130,399), respectively.

# **RediShred Capital Corp.**

## **Notes to Consolidated Financial Statements**

**For the years ended December 31, 2011 and 2010**

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(expressed in Canadian dollars)

### **22 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.

### **23 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. Prior to April 30, 2010, the Company operated one business segment, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising and licensing). Upon the acquisition of Syracuse, Albany and Milwaukee, the Company operates two reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising and licensing), and (2) the operation of corporately owned shredding businesses (Corporate locations).

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**23 Segment reporting** (continued)

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

	Franchising and licensing		Corporate locations		Total	
	December 31, 2011 \$	December 31, 2010 \$	December 31, 2011 \$	December 31, 2010 \$	December 31, 2011 \$	December 31, 2010 \$
<b>ASSETS</b>						
<b>Current assets</b>						
Cash	218,286	824,269	2,793,500	164,323	3,011,786	988,592
Cash attributable to Ad Fund	137,818	–	–	–	137,818	–
Trade receivables	201,972	282,064	258,142	132,846	460,114	414,910
Prepaid expenses	22,789	12,598	40,807	32,423	63,596	45,021
Notes receivable from franchisees	62,859	33,178	–	–	62,859	33,178
Income tax recoverable	17,603	–	–	–	17,603	–
<b>Total current assets</b>	<b>661,327</b>	<b>1,152,109</b>	<b>3,092,449</b>	<b>329,592</b>	<b>3,753,776</b>	<b>1,481,701</b>
<b>Non-current assets</b>						
Notes receivable from franchisees	183,619	108,705	–	–	183,619	108,705
Equipment	–	4,584	565,294	655,922	565,294	660,506
Deferred financing charges	66,259	88,345	–	–	66,259	88,345
Intangible assets	2,937,129	2,409,181	621,677	770,578	3,558,806	3,179,759
Goodwill	–	–	878,270	1,112,232	878,270	1,112,232
<b>Total assets</b>	<b>3,848,334</b>	<b>3,762,924</b>	<b>5,157,690</b>	<b>2,868,324</b>	<b>9,006,024</b>	<b>6,631,248</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	370,980	413,062	315,187	100,497	686,167	513,559
Deferred revenue	10,170	–	–	–	10,170	–
Notes payable	–	–	22,028	127,841	22,028	127,841
Current portion of long-term debt	–	–	53,176	–	53,176	–
<b>Total current liabilities</b>	<b>381,150</b>	<b>413,062</b>	<b>390,391</b>	<b>228,338</b>	<b>771,541</b>	<b>641,400</b>
<b>Non-current liabilities</b>						
Long-term debt	–	–	5,544,805	2,790,000	5,544,805	2,790,000
Deferred tax liability	410,110	490,232	–	–	410,110	490,232
<b>Total liabilities</b>	<b>791,260</b>	<b>903,294</b>	<b>5,935,196</b>	<b>3,018,338</b>	<b>6,726,456</b>	<b>3,921,632</b>

**RediShred Capital Corp.**  
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(expressed in Canadian dollars)

**23 Segment reporting** (continued)

The Company incurred \$29,821 in capital expenditures relating to its corporate operations during the year ended December 31, 2011 (December 31, 2010- \$468,941). The Company did not have any capital expenditures related to its franchising operations for the year ended December 31, 2011 (December 31, 2010- \$6,608).

**Geographic information**

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<b>Canada</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Equipment	–	4,584	4,505
Deferred financing charges	66,259	88,345	110,431
Intangible assets	1,376,307	716,683	120,841
<b>United States</b>			
Notes receivable from franchisees	246,477	141,883	164,226
Equipment	565,294	655,922	–
Intangible assets	2,182,499	2,463,075	2,055,197
Goodwill	878,270	1,112,232	–
<b>Total</b>			
Notes receivable from franchisees	246,477	141,883	164,226
Equipment	565,294	660,506	4,505
Deferred financing charges	66,259	88,345	110,431
Intangible assets	3,558,806	3,179,759	2,176,038
Goodwill	878,270	1,112,232	–

**Revenue**

All revenues were attributed to the United States, with the exception of a \$nil license fee (2010 - \$250,000), which was attributed to the Middle East.



# RediShred Capital Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

### 23 Segment reporting (continued)

#### Net loss by operating segment

Total net loss by reportable operating segment is as follows:

	For the year ended December 31, 2011			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,367,588	2,011,795	—	3,379,383
Direct costs	—	(1,230,144)	—	(1,230,144)
Corporate overhead	(1,831,960)	(173,372)	(427,171)	(2,432,503)
Reversal of impairment	836,919	—	—	836,919
Impairment of goodwill	—	(247,688)	—	(247,688)
Depreciation and amortization	(363,241)	(289,089)	—	(652,330)
Foreign currency gain, net	—	—	66,163	66,163
Interest expense	—	(286,915)	—	(286,915)
Interest income	2,946	—	—	2,946
Income tax recovery	109,086	—	—	109,086
Net income (loss)	121,338	(215,413)	(361,008)	(455,083)

	For the year ended December 31, 2010			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,290,052	713,711	—	2,003,763
Direct costs	—	(491,556)	—	(491,556)
Corporate overhead	(1,056,649)	(90,340)	(485,545)	(1,632,534)
Reversal of impairment	598,603	—	—	598,603
Depreciation and amortization	(305,573)	(105,734)	—	(411,307)
Foreign currency loss, net	—	—	(143,600)	(143,600)
Loss on settlement of pre-existing relationship	—	(149,775)	—	(149,775)
Interest expense	—	(73,082)	—	(73,082)
Interest income	4,945	—	—	4,945
Recovery of income taxes	20,443	—	—	20,443
Net income (loss)	551,821	(196,776)	(629,145)	(274,100)

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
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(expressed in Canadian dollars)

**23 Segment reporting** (continued)

For the year ended December 31, 2011, the Company operated three corporate locations from January 1, 2011 to December 31, 2011. For the year ended December 31, 2010, the Company operated two corporate locations. The operating results included for 2010 are from May 1, 2010 to December 31, 2010.

**24 Related party balances and transactions**

A Director of the Company is the owner of the Tampa, Florida Proshred franchise. Included in trade receivables and notes receivable from franchisees at December 31, 2011, is \$1,592 (December 31, 2010 - \$9,141) due from the Director's franchise. During the year ended December 31, 2011, the Company earned royalty and service fee amounts of \$87,165 (December 31, 2010 - \$79,560) from the Director's franchise.

Included in selling, general and administrative expenses for the year ended December 31, 2011 are insurance premium amounts of \$15,317 (December 31, 2010 - \$16,929) paid to an insurance brokerage firm owned by a Director of the Company.

All related party transactions have been recorded at their exchange amounts.

**25 Transition to IFRS**

The Company's consolidated financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS. IFRS 1 requires that comparative financial information be provided for the first date at which the Company has applied IFRS, which was January 1, 2010 ("transition date"). In accordance with IFRS 1, the Company has also retrospectively applied all published IFRS standards effective as of December 31, 2011 and applied certain optional exemptions and mandatory exceptions as applicable for first time IFRS adopters.

The effect of the Company's transition to IFRS, described in note 2, is summarized in this note as follows:

- (a) Elected exemptions from full retrospective application;
- (b) Mandatory exceptions to retrospective application;
- (c) Reconciliations of Canadian GAAP to IFRS; and
- (d) Notes to the reconciliations.

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**25 Transition to IFRS** (continued)

**(a) Elected exemptions from full retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

*Business combinations* – IFRS 1 allows for the guidance under IFRS 3 (revised), *Business Combinations*, to be applied either retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to its transition date. The Company has elected to adopt IFRS 3 (revised) prospectively and has not restated its business combinations prior to its transition date. Accordingly, all business combinations that occurred prior to January 1, 2010 have not been restated.

*Cumulative translation differences* – IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. RediShred deemed all cumulative translation differences to be zero on transition to IFRS.

**(b) Mandatory exceptions to retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1 the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

*Estimates* – Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP will not be revised for the application of IFRS except where necessary to reflect any differences in accounting policies between IFRS and Canadian GAAP.

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

### 25 Transition to IFRS (continued)

#### (c) Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive loss for prior periods. The following is the reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date of January 1, 2010 and December 31, 2010:

	Notes	December 31, 2010	January 1, 2010
		\$	\$
<b>Total equity as reported under Canadian GAAP</b>		<u>4,088,948</u>	<u>5,293,534</u>
Impairment of assets, net of reversals	(i)	(1,790,216)	(2,388,818)
Depreciation	(ii)	416,814	—
Deferred taxes	(iii)	47,422	94,550
Business combinations	(iv)	<u>(53,352)</u>	<u>—</u>
Total adjustments to equity		<u>(1,379,332)</u>	<u>(2,294,268)</u>
<b>Total equity as reported under IFRS</b>		<u>2,709,616</u>	<u>2,999,266</u>

The following is the reconciliation of the Company's comprehensive loss reported in accordance with Canadian GAAP to its comprehensive loss in accordance with IFRS for the year ended December 31, 2010:

	Notes	For the year ended December 31, 2010
		\$
<b>Comprehensive loss as reported under Canadian GAAP</b>		<u>(1,291,808)</u>
Reversal of impairment	(i)	599,032
Depreciation	(ii)	416,814
Deferred taxes	(iii)	(47,558)
Business combinations	(iv)	(53,352)
Share-based payments	(v)	<u>28,322</u>
Total adjustments to comprehensive loss		<u>943,258</u>
<b>Comprehensive loss as reported under IFRS</b>		<u>(348,550)</u>

**RediShred Capital Corp.**  
Notes to Consolidated Financial Statements  
For the years ended December 31, 2011 and 2010

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(expressed in Canadian dollars)

**25 Transition to IFRS** (continued)

**Notes to the reconciliations**

(i) Impairment of assets

Under Canadian GAAP, impairment testing of long-lived assets is based on a two-step approach, in which an asset group's carrying value is compared to the group's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset group is impaired by an amount equal to the difference between the fair value and the carrying value. Under Canadian GAAP impairments are not subsequently reversed. Under IAS 36 *Impairment of Assets* ("IAS 36") the impairment test is based on a one-step approach, in which a review of impairment indicators is performed and if there is an indication of impairment, an assets carrying value is compared to its recoverable amount, which is estimated as the higher of the asset's or cash generation units ("CGUs") fair value less costs to sell and its value-in-use. The fair value less costs to sell and the value-in-use is calculated based on discounted cash flows. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. The reversal is limited to restoring the carrying amount such that it does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

The Company assessed its impairment indicators at January 1, 2010 and December 31, 2010. The Company also assessed its indicators of reversals of impairment at December 31, 2010. At each reporting period, there was an indication of impairment or reversal of impairment on certain CGUs to warrant an analysis to be performed. Based on the impairment review performed at January 1, 2010, the recoverable amount of certain CGUs was less than their carrying amounts and the Company recorded an impairment loss of \$2,388,818, which was recorded as an impairment of intangible assets of \$2,357,257 and an impairment of equipment of \$31,561. At December 31, 2010, the Company determined the recoverable amount of certain CGUs was higher than their carrying amounts and recorded a reversal of impairment of intangible assets of \$598,603. Refer to note 13 for assumptions used.

(ii) Depreciation

The adjustments to the depreciation are a result of the impairment loss recognized at January 1, 2010. The asset's amortization amounts for fiscal 2010 were impacted and reduced accordingly, to reflect the lower carrying value.

(iii) Deferred tax liability

Upon initial recognition of the Company's intangible assets, a deferred tax liability was recognized as the difference between the accounting value of the intangible assets and their related tax values. The Company has adjusted the deferred tax liability for the related impact as a result of the impairment loss recognized at January 1, 2010, the related impact as a result of the reversal of impairment previously recorded at December 31, 2010 and the revised depreciation recorded in 2010.

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2011 and 2010**

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(expressed in Canadian dollars)

**25 Transition to IFRS** (continued)

The following table highlights the changes to the deferred tax liability:

	<b>December 31, 2010</b>	<b>January 1, 2010</b>
	\$	\$
<b>Deferred Tax Liability – Canadian GAAP</b>	(533,000)	(646,000)
Changes to accounting values	42,768	94,551
<b>Deferred Tax Liability – IFRS</b>	<b>(490,232)</b>	<b>(551,449)</b>

(iv) Business combinations

Under Canadian GAAP, contingent consideration is not recorded until the conditional element has been resolved. Furthermore, acquisition related costs are capitalized as part of the cost of the acquisition. Under IFRS 3, the Company is required to value the cost of its business combinations at fair value at the acquisition date of assets transferred, liabilities and contingent consideration incurred and equity instruments issued by the acquirer as well as expense all acquisition related costs. As a result, the Company has estimated the fair value of the contingent consideration related to the business combinations completed in 2010 and capitalized them as part of the cost of the acquisitions. In addition, all acquisition related costs have been expensed in the respective period.

(v) Share-based payments

Under IFRS 2, *Share-based payments*, the Company is required to treat each tranche within an award as a separate award and calculate compensation expense for each tranche over its own distinct vesting period. IFRS 2 also requires an estimate of the forfeiture rate in the calculation of periodic compensation expense, as opposed to being optional under Canadian GAAP. As a result, the Company has estimated a forfeiture rate and calculated its compensation expense in accordance with IFRS 2 resulting in an adjustment at the transition date between two accounts within equity and during the year ended December 31, 2010.

(vi) Adjustments to the statements of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest, dividends and income taxes are required to be disclosed separately on the statement of cash flows. Cash flows relating to interest are classified in a consistent manner as operating, investing or financing each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating.

**RediShred Capital Corp.**  
**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2011 and 2010**

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(expressed in Canadian dollars)

**25 Transition to IFRS** (continued)

(vii) Cumulative translation differences

Under IFRS 1, the Company elected to set the cumulative translation amount of \$161,067 under Canadian GAAP to \$nil upon transition to IFRS. This has been reflected as a reclassification between accumulated other comprehensive income (loss) and deficit and thus does not affect reported total equity. There was an immaterial impact on the cumulative translation amount for the year ended December 31, 2010.

**26 Subsequent events**

On January 1, 2012, the Company completed the acquisition of the Proshred New York City business from an existing franchisee for an aggregate purchase price of US\$2,569,000. The Company withdrew funds from its line of credit facility and has obtained vendor financing relating to the purchase of the New York City assets. In conjunction with the purchase of the business, the exiting franchisee withdrew from the legal complaint filed against the Company in June 2010. The New York City operating results will be included in the 2012 financial statements.

The Company is in the process of valuing the assets and liabilities acquired. The preliminary purchase price allocation is as follows.

	\$
<b>Assets acquired</b>	
Equipment	651,334
Customer lists	231,835
Franchise intangibles	1,087,685
Goodwill	652,866
	<u>2,623,720</u>
<b>Consideration given</b>	
Cash	2,246,860
Promissory notes	280,858
Settlement of accounts receivable	96,002
	<u>2,623,720</u>
Acquisition costs (expensed in statement of comprehensive loss)	<u>44,755</u>

On January 31, 2012, the Company announced that it has entered into an agreement with its Chicago South franchisee for the franchisee to purchase the Chicago North territories. The Chicago South franchisee has also renewed his existing franchise agreement for an additional five year period. The Company will recognize US\$93,300 in franchise fee revenue in the first quarter of 2012.

In March 2012, the line of credit limit (see note 15) was increased by \$0.63 million to \$6.0 million, repayable on November 27, 2014; all other terms of the agreement remained unchanged.

