RediShred Capital Corp.

Consolidated Interim Financial Statements
March 31, 2013 and 2012
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

May 29, 2013

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2013.

RediShred Capital Corp.

Consolidated Statements of Financial Position

March 31, 2013

(expressed in Canadian dollars)

	March 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash	522,585	532,040
Cash attributable to the Advertising Fund (note 3)	69,690	48,031
Trade receivables	383,787	424,064
Prepaid expenses	138,009	97,949
Notes receivable from franchisees	46,678	40,765
	1,160,749	1,142,849
Non-current assets		
Notes receivable from franchisees	185,290	193,669
Equipment (note 4)	1,300,911	1,112,105
Intangible assets (note 5)	3,095,340	3,210,580
Goodwill (notes 6)	1,392,090	1,361,705
	7,134,380	7,020,908
Assets classified as held for sale (note 7)	279,532	286,952
Total assets	7,413,912	7,307,860
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	701,694	504,510
Current portion of notes payable	67,916	81,383
Current portion of long-term debt (note 8)	133,172	99,692
Contingent consideration	10,171	14,924
	912,953	700,509
Non-current liabilities		
Long-term debt (note 8)	6,428,578	6,292,452
Long-term notes payable	155,031	137,410
Deferred tax liability	215,086	214,188
Convertible debenture	334,310	333,119
	8,045,958	7,677,678
Liabilities directly associated with the assets classified as held for sale (note 7)	97,878	105,178
Total liabilities	8,143,836	7,782,856
Shareholders' Deficiency	(729,924)	(474,996)
Total liabilities and shareholders' deficiency	7,413,912	7,307,860

Commitments and contingency (note 13)

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

RediShred Capital Corp.

Consolidated Statements of Comprehensive Loss

For the three months ended March 31, 2013 and 2012
(expressed in Canadian dollars)

	2013 $	2012 $
Continuing operations		
Revenue (note 10)	901,396	1,101,050
Corporate operating locations expenses (note 11)	(600,943)	(749,689)
Selling, general and administrative expenses (note 12)	(378,262)	(704,935)
Loss before interest, income taxes and other items	(77,809)	(353,574)
Loss on settlement of pre-existing relationship	–	(350,700)
Gain on sale of assets	3,797	–
Interest expense	(164,757)	(138,367)
Interest income	2,645	481
Loss before income taxes	(236,124)	(842,160)
Income tax recovery	12,369	18,690
Net loss for the period from continuing operations	(223,755)	(823,470)
Discontinued operations		
Income after tax from discontinued operations (note 7)	3,338	–
Net loss for the period	(220,417)	(823,470)
Other comprehensive loss, net of tax		
Foreign currency translation loss	(34,576)	(5,802)
Comprehensive loss for the period	(254,993)	(829,272)
Net loss per share		
Basic and diluted	(0.01)	(0.03)
Weighted average number of commons shares outstanding – basic and diluted	28,884,658	28,884,658

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2013 and 2012
(expressed in Canadian dollars)

	Capital stock and warrants $ (note 9)	Contributed surplus $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity/(deficiency) $
Balance – January 1, 2012	8,585,808	314,947	(66,523)	(6,554,664)	2,279,568
Net loss for the period	–	–	–	(2,802,536)	(2,802,536)
Other comprehensive income					
Foreign currency translation gain	–	–	(5,038)	–	(5,038)
Comprehensive loss for the period	–	–	–	–	(2,807,574)
Issue of convertible debentures (net of costs)	–	20,077	–	–	20,077
Stock-based compensation (note 9)	–	32,933	–	–	32,933
Balance – December 31, 2012	8,585,808	367,957	(71,561)	(9,357,200)	(474,996)
Net loss for the period	–	–	–	(220,417)	(220,417)
Other comprehensive income					
Foreign currency translation loss	–	–	(34,576)	–	(34,576)
Comprehensive loss for the period	–	–	–	–	(254,993)
Stock-based compensation (note 9)	–	65	–	–	65
Balance – March 31, 2013	8,585,808	368,022	(106,137)	(9,577,617)	(729,924)

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2013 and 2012
(expressed in Canadian dollars)

Cash provided by (used in)	**2013** **$**	**2012** **$**
Operating activities		
Net loss for the period	(223,756)	(823,470)
Items not affecting cash		
Amortization of equipment and intangible assets	236,089	268,652
Stock-based compensation	65	690
Unrealized foreign currency (gain) loss	(134,260)	109,769
Impairment of note receivable	–	15,030
Loss on settlement of pre-existing litigation	–	350,700
Income tax recovery	(12,369)	(18,690)
	(134,230)	(97,319)
Net change in non-cash working capital balances		
Decrease (increase) in trade receivables	40,277	(113,492)
(Increase) in prepaid expenses	(40,057)	(23,867)
Decrease in notes receivable from franchisees	2,466	6,911
Decrease in income taxes recoverable	–	7,255
(Decrease) in deferred revenue	–	(10,170)
Increase (decrease) in accounts payable and accrued liabilities	197,184	(2,514)
Net cash from (used in) continuing operations	65,640	(233,196)
Net cash used in discontinued operations (note 7)	(3,141)	–
	62,499	(233,196)
Financing activities		
Repayment of long-term debt	(32,874)	(16,212)
Repayment of notes payable	(1,805)	–
	(34,679)	(16,212)
Investing activities		
Cash paid on acquisition of franchise	–	(2,309,508)
Cash held by advertising fund	(21,659)	(64,675)
Purchase of capital assets	(19,381)	(35,571)
	(41,040)	(2,409,754)
Effect of foreign exchange rate changes on cash	3,765	(8,442)
Net change in cash for the period	(9,455)	(2,667,604)
Cash – Beginning of period	532,040	3,011,786
Cash – End of period	522,585	344,182

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

1 Corporate information and nature of operations

Redishred Capital Corp. (“Redishred” or the “Company”) was incorporated under the Canada Business Corporations Act on October 18, 2006 and is domiciled in Canada. Redishred’s common shares are listed for trading on the TSX Venture Exchange under the symbol “KUT”. The registered address of the Company is 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 the United States and, (3) licensing internationally.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting.* The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2012, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2013. Together, Redishred and its subsidiaries are referred to as “the Company.”

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2012 and have been consistently applied in the preparation of these consolidated financial statements. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

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

The interim consolidated financial statements of the Company for the three months ended March 31, 2013 were authorized for issue in accordance with a resolution of the Directors on May 28, 2013.

3 Advertising fund

The Company manages an advertising fund (the “Ad Fund”) established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a percentage of each location’s revenue. In accordance with *IAS 18 – Revenue*, the revenue, expenses and cash flows of the Ad Fund are not included in the Company’s Statements of Comprehensive Loss because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at March 31, 2013, the Ad Fund was in a net surplus position of $138,499 (December 31, 2012 – $121,469), including cash attributable to the Ad Fund amounting to $69,690 (December 31, 2012 - $48,031)

(expressed in Canadian dollars)

4 Equipment

Cost	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles – box**	**Recycling equipment**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
As at January 1, 2012	91,368	53,203	51,484	219,621	472,610	6,462	6,814	901,562
Additions	28,062	921	16,206	123,696	257,034	–	–	425,919
Acquisitions	7,500	5,750	87,750	125,875	301,290	90,000	46,200	664,365
Sale of assets	–	–	–	(43,144)	(102,559)	(3,000)	–	(148,703)
Assets held for sale (note 7)	–	–	(17,750)	(39,375)	(84,790)	–	(30,000)	(171,915)
Foreign exchange	(731)	(389)	(877)	(2,056)	(4,819)	(561)	(304)	(9,737)
As at December 31, 2012	126,199	59,485	136,813	384,617	838,766	92,901	22,710	1,661,491
Additions	926	2,385	2,629	142,901	369,111	–	–	517,952
Sale of assets	–	–	(1,433)	(100,741)	(231,000)	–	–	(333,174)
Foreign exchange	608	114	2,548	13,779	24,181	2,892	200	44,322
As at March 31, 2013	127,733	61,984	140,557	440,556	1,001,058	95,793	22,910	1,890,591

Accumulated depreciation and impairment	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles - box**	**Recycling equipment**	**Vehicles**	**Total**
	$	**$**	**$**	$	**$**	**$**	**$**	**$**
As at January 1, 2012	88,464	50,039	10,932	57,581	122,134	4,847	2,271	336,268
Depreciation	8,174	3,793	28,500	55,712	121,351	21,539	9,125	248,194
Sale of assets	–	–	–	(3,664)	(9,009)	(3,000)	–	(15,673)
Assets held for sale (note 7)	–	–	(1,650)	(3,662)	(7,885)	–	(2,790)	(15,987)
Foreign exchange	(577)	(359)	(285)	(570)	(1,280)	(203)	(142)	(3,416)
As at December 31, 2012	96,061	53,473	37,497	105,397	225,311	23,183	8,464	549,386
Depreciation	1,737	1,185	6,929	14,587	26,634	5,000	236	56,308
Sale of assets	–	–	–	(6,903)	(19,933)	–	–	(26,836)
Foreign exchange	1,017	935	1,035	1,934	5,270	482	149	10,822
As at March 31, 2013	98,815	55,593	45,461	115,015	237,282	28,665	8,849	589,680
Net book value								
As at December 31, 2012	30,138	6,012	99,316	279,220	613,455	69,718	14,246	1,112,105
As at March 31, 2013	28,918	6,391	95,096	325,541	763,776	67,128	14,061	1,300,911

During the three months ended March 31, 2013, the Company sold four older shredding vehicles and purchased two new shredding vehicles obtaining vendor financing (refer to note 8). The foreign exchange adjustment is a result of the translation of corporate equipment from US functional currency dollars to Canadian presentation dollars at March 31, 2013 and December 31, 2012. 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.”

5 Intangible assets

Cost	Franchise agreements	Proshred system	Trademarks and intellectual property	Re-acquired franchise rights	Customer relationships	Total
	$	$	$	$	$	$
As at January 1, 2012	2,790,576	978,000	1,672,500	539,010	279,676	6,692,296
Acquisitions	–	–	–	320,000	760,000	1,080,000
Removal of original franchise agreements	(372,000)	–	–	–	–	(372,000)
Assets held for sale (note 7)	–	–	–	(50,000)	(90,000)	(140,000)
Foreign exchange	(53,215)	–	–	(13,344)	(9,954)	(76,513)
As at December 31, 2012	2,365,361	978,000	1,672,500	795,666	939,722	6,751,249
Foreign exchange	52,511	–	–	16,381	20,760	89,652
As at March 31, 2013	2,417,872	978,000	1,672,500	812,047	960,482	6,840,901

Accumulated amortization and impairment	Franchise agreements	Proshred system	Trademarks and intellectual property	Re-acquired franchise rights	Customer relationships	Total
	$	$	$	$	$	$
As at January 1, 2012	1,229,750	406,169	868,025	163,967	33,045	3,133,490
Amortization	248,700	92,725	130,453	183,768	98,655	754,301
Removal of original franchise agreements	(190,493)	–	–	–	–	(190,493)
Impairment	158,757	64,237	89,974	–	–	312,968
Assets held for sale (note 7)	–	–	–	(4,625)	(4,163)	(8,788)
Foreign exchange	(22,463)	–	–	(4,500)	(1,312)	(28,275)
As at December 31, 2012	1,424,251	562,681	1,088,452	338,610	126,225	3,540,219
Amortization	46,317	20,522	28,260	44,786	23,623	163,508
Foreign exchange	32,466	–	–	6,712	2,656	41,834
As at March 31, 2013	1,503,034	583,203	1,116,712	390,108	152,504	3,745,561
Net book value						
As at December 31, 2012	941,110	414,869	584,048	457,056	813,497	3,210,580
As at March 31, 2013	914,838	394,797	555,788	421,939	807,978	3,095,340

There were no additions to intangible assets during the three months ended March 31, 2013. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at March 31, 2013 and December 31, 2012. Amortization of reacquired franchise rights and customer relationships for the period is included in the statement of comprehensive loss in “corporate operating expenses” and amortization of the remaining intangible assets is included in the statement of comprehensive loss in “selling, general and administrative expenses.” The Company’s franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company’s franchises and corporately owned locations in the US.

(expressed in Canadian dollars)

6 Goodwill

The following table presents goodwill for the three months ended March 31, 2013 and for the year ended December 31, 2012:

	March 31, 2013	December 31, 2012
	$	$
Opening balance	1,361,705	878,270
Acquisitions	–	737,292
Impairment of goodwill	–	(232,196)
Foreign currency translation	30,385	(21,661)
Closing balance	1,392,090	1,361,705

7 Assets classified as held for sale

On December 31, 2012, the Company committed to a plan to sell the Miami business acquired on July 13, 2012. Given the geographic location of the business in relation to the Company's other corporate locations, the Company decided that the customers would be best served by locations in closer proximity to Miami. The Company also determined that the Miami location might also be required to invest in infrastructure and additional staff to run the operations effectively, which would result in lower cash flow margins. The Company currently has a joint arrangement with the franchise in Tampa Bay, Florida to operate the Miami business (please refer to Note 17). The Company is currently negotiating the sale of the business. The Company has classified the Miami business as a disposal group held for sale and as a discontinued operation. The results of the Miami business for the period have been accounted for as a joint arrangement with the Tampa Bay franchise. Within the joint arrangement, the Company earns royalty and service fees on the gross Miami revenues and rental revenue for the use of the shredding vehicle. The Company incurs finance costs on the monthly truck loan payments and depreciation and amortization on the Miami tangible and intangible assets. The Company's rental revenues and expenses from the Miami business that are associated with the disposal group are presented below:

For the three months ended,	March 31, 2013	March 31, 2012
	$	$
Revenue	17,887	–
Expenses		
Operating expenses	(3,322)	–
Depreciation and amortization	(9,558)	–
	(12,880)	–
Income from discontinued operations	5,007	–
Finance costs	(1,669)	–
Income for the period associated with the disposal group	3,338	–

(expressed in Canadian dollars)

7 Assets classified as held for sale (continued)

The major classes of assets and liabilities of the Miami business classified as held for sale as at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
	$	
Assets		
Equipment	151,160	155,740
Intangible assets	128,372	131,212
	279,532	286,952
Liabilities		
Truck loan (details below)	97,878	105,178
Net assets directly associated with disposal group	**181,654**	**181,774**

On July 5, 2012, the Company entered into a loan and security agreement in the amount of US$121,128, repayable with monthly blended payments of principal and interest of US$3,718 maturing July 5, 2015. The loan bears interest at 6.502% per annum and is secured by one shredding vehicle with a carrying value of $108,229. The value of the loan on March 31, 2013 is $97,878.

The net cash flows incurred by the Miami business are as follows:

For the three months ended,	**March 31, 2013**	**March 31, 2012**
	$	$
Operating activities		
Profit for the period associated with disposal group	3,338	–
Adjustments not affecting cash:		
Depreciation and amortization	9,558	–
Foreign exchange gain	(1,928)	–
	10,968	–
Financing activities		
Repayment of truck loan	(11,146)	–
Investing activities		
Contingent consideration payment	(2,963)	–
Net change in cash for the period	(3,141)	–
Cash –beginning of the period	7,233	–
Cash – end of the period	4,092	–

(expressed in Canadian dollars)

8 Long-term debt

As at March 31, 2013 and December 31, 2012 long-term debt is comprised of:

	March 31, 2013	December 31, 2012
	$	$
Line of credit (i)	6,033,094	6,033,094
Less: deferred financing charges	(38,650)	(44,172)
Line of credit net of deferred financing charges	5,994,444	5,988,922
Truck loans (ii)	567,306	403,222
Total long-term debt	6,561,750	6,392,144
Less: current portion	(133,172)	(99,692)
Total	6,428,578	6,292,452

(i) The line of credit was entered into on November 27, 2009 with a related party entity (refer to note 26) for a maximum amount of $4 million. The line of credit is repayable on November 27, 2014, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets. Deferred financing charges in respect of this facility are charged to expense over the term of the facility. During the year ended December 31, 2011, the line of credit limit was increased to $5.37 million. During the year ended December 31, 2012, the line of credit was increased to $6.03 million. The terms of the agreement remained unchanged upon increasing the line of credit. The Company has drawn from its line of credit in order to finance the purchase of its' corporate locations including Syracuse, Albany, Milwaukee in 2010 and New York City and Miami in 2012 and for general business purposes.

(ii) On November 11, 2011, the Company entered into a loan and security agreement in the amount of US$240,000, repayable with monthly blended payments of principal and interest of US$5,690 maturing October 3, 2015. The loan bears interest at 8.14% per annum and is secured by two shredding vehicles with a carrying value of US$262,560. The value of the loan on March 31, 2013 is $161,290.

(ii) On August 3, 2012, the Company entered into a loan and security agreement in the amount of US$125,556, repayable with monthly blended payments of principal and interest of US$2,545 maturing August 13, 2017. The loan bears interest at 8% per annum and is secured by one shredding vehicle with a carrying value of $179,574. The value of the loan on March 31, 2013 is $115,291.

(ii) On January 3, 2013, the Company traded in one of its shredding vehicles for a larger shredding vehicle. The related loan and security agreement entered into on August 8, 2012, in the amount of US$121,000, was replaced with a new loan and security agreement. The loan and security agreement for US$119,906 is repayable with monthly blended payments of principal and interest of US$2,382 maturing January 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of $240,000. The value of the loan on March 31, 2013 is $118,621

(ii) On January 31, 2013, the Company entered into a loan and security agreement in the amount of US$171,516, repayable with monthly blended payments of principal and interest of $3,407 maturing February 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of $246,105. The value of the loan on March 31, 2013 is $172,103.

(expressed in Canadian dollars)

9 Capital stock

a) Authorized

Unlimited number of common shares, without nominal or par value.
Unlimited number of preferred shares, without nominal or par value.

b) Issued and fully paid

For the three months ended March 31, 2013 and the year ended December 31, 2012, there were no changes in issued common shares of the Company.

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

	Common stock		Warrants		
	Number	$	Number	$	Total $
Balance, December 31, 2012 and March 31, 2013	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 three months ended March 31, 2013, was 28,884,658 (December 31, 2012 - 28,884,658).

d) Stock options

At March 31, 2013, the Company has 1,423,750 options outstanding (December 31, 2012 – 1,691,250) and a weighted average exercise price of $0.24 (December 31, 2012 - $0.24). During the three months ended March 31, 2013, 267,500 stock options expired (for the three months ended March 31, 2012 – nil). There have been no stock options granted during the three months ended March 31, 2013 (for the three months ended March 31, 2012 – 5,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $65 (for the three months ended March 31, 2012 – $690).

e) Warrants

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

(expressed in Canadian dollars)

10 Revenue

The revenue earned by the Company for the three months ended March 31, 2013 and 2012 is broken down as follows:

	2013	2012
	$	$
Royalties	225,615	201,627
Franchise fees	–	93,487
License fees	1,165	–
Shredding services	547,581	641,168
Sale of paper products	127,035	164,768
Total revenue	901,396	1,101,050

11 Corporate operating locations expenses by nature

The corporate operating locations expenses incurred by the Company for the three months ended March 31, 2013 and 2012 are broken down as follows:

	2013	2012
	$	$
Shredding vehicle and related expenses	149,176	161,545
Employee wages expense	217,220	270,505
Employee benefit expense	40,459	55,371
Office and administration expense	82,587	118,123
Depreciation – equipment	54,218	62,219
Amortization – intangible assets	57,283	81,926
Total corporate operating expenses	600,943	749,689

(expressed in Canadian dollars)

12 Selling, general and administrative expenses by nature

The selling, general and administrative expenses incurred by the Company for the three months ended March 31, 2013 and 2012 are broken down as follows:

	2013	2012
	$	$
Employee wages expense	192,947	191,538
Employee benefits expense	12,912	18,658
Share-based compensation	65	690
Professional fees	30,014	127,479
Technology	49,724	31,241
Rent and office expense	24,050	17,318
Selling and development	25,264	12,061
Bad debt expense	–	15,030
Amortization of deferred financing charges	5,522	5,522
Amortization – intangible assets	109,517	118,985
Foreign exchange (gain) loss	(116,547)	108,696
Other	44,794	57,717
Total selling, general and administrative expenses	378,262	704,935

Compensation of key management

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

	2013	2012
	$	$
Wages and benefits	154,070	154,793
Share-based compensation	65	398
Total	154,135	155,191

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

(expressed in Canadian dollars)

13 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, 2014, Syracuse, which expires on August 31, 2015, Milwaukee, which expires on August 31, 2016 and New York City, which expires on April 30, 2013 and September 30, 2015. Certain contracts include renewal options for various periods of time. For the three months ended March 31, 2013, the Company incurred $64,801 (for the three months ended March 31, 2012 - $72,032) 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	148,528
Between 1 and 5 years	185,350
Total	333,878

Contingency

During the second quarter of 2010, four franchisees filed a complaint with the United States District Court, South District of New York, which management of the Company believes is without merit. The complaint has listed the following causes of action, (1) breach of contract and breach of the implied covenant of good faith and fair dealing by PFC, (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. As of March 31, 2013, one franchisee remains in the legal complaint and three franchisees have permanently withdrawn.

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

The final outcome with respect to this claim cannot be predicted nor can the costs to defend this claim be reliably estimated 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.

14 Financial instruments and fair values

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

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

Interest rate risk

The Company's cash is subject to cash flow risk, as it earns interest at prevailing and fluctuating market rates. The Company has a fixed rate on notes receivable from franchisees ranging from 4.25% to 8.25% per annum, and the line of credit facility has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 6.502% to 8.14% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

Credit risk

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

Receivables related to franchising and licensing

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2013, 6 franchisees accounted for 76% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2012 - 6 franchises accounted for 83%). For the three months ended March 31, 2013, 3 franchisees accounted for 29% of the Company's revenues related to franchising and licensing (for the three months ended March 31, 2012 - 3 franchisees accounted for 32%). As of March 31, 2013, there are no accounts and notes receivable over 90 days old (December 31, 2012 – nil).

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At March 31, 2013 and December 31, 2012, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2013 and for the year ended December 31, 2012, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2013, 10% of accounts receivable in this category was over 90 days old (December 31, 2012 – 13%). The Company does not have any reason to believe it will not collect all remaining balances.

14 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) or a +5% (appreciation of the USD) against the CAD, from an average rate of USD$1.00 = CAD$1.0077, the total impact to net loss would be a decrease/increase of approximately $10,000.

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 $9.5 million at March 31, 2013. 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 $912,953 at March 31, 2013 (December 31, 2012 - $700,509), are due to be settled within one year from the date of the Statement of Financial Position.

At March 31, 2013, the Company has cash of $522,585 and working capital of $247,796.

(expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	701,694	–	–	–
Notes payable	62,686	5,113	155,147	–
Contingent consideration	–	10,171	–	–
Convertible debentures	–	–	334,310	–
Long-term debt[(1)]	41,976	130,911	6,486,674	–

Interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Notes payable	174	390	203	–
Convertible debentures	–	28,125	112,500	–
Long-term debt[(1)]	310,805	330,185	644,204	–

Liquidity risk

Total principal and interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	701,694	–	–	–
Notes payable	62,860	5,503	155,350	–
Contingent consideration	–	10,171	–	–
Convertible debentures	–	28,125	446,810	–
Long-term debt[(1)]	352,781	461,096	7,130,878	–

(1) Long-term debt includes a truck loan of $97,878 currently classified as part of a disposal group held for sale.

Fair value of financial instruments

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

These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company’s notes receivable from franchisees at March 31, 2013, amounted to $231,968 (December 31, 2012 - $234,434) with fair value estimated to amount to $209,953 (December 31, 2012 - $212,694), respectively.

15 Capital management

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

16 Segment reporting

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

(expressed in Canadian dollars)

16 Segment reporting (continued)

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
	March 31, 2013	March 31, 2013	March 31, 2013	March 31, 2013
ASSETS	$	$	$	$
Current assets				
Cash	61,803	74,096	386,686	522,585
Cash attributable to the Ad Fund	69,690	–	–	69,690
Trade receivables	79,272	283,714	20,801	383,787
Prepaid expenses	41,375	51,081	45,553	138,009
Notes receivable from franchisees	46,678	–	–	46,678
Total current assets	298,818	408,891	453,040	1,160,749
Non-current assets				
Notes receivable from franchisees	185,290	–	–	185,290
Equipment	–	1,298,874	2,037	1,300,911
Intangible assets	914,834	1,229,917	950,589	3,095,340
Goodwill	–	1,392,090	–	1,392,090
Assets held for sale	–	279,532	–	279,532
Total assets	1,398,942	4,609,304	1,405,666	7,413,912
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	105,620	358,018	238,056	701,694
Current portion of notes payable	13,609	54,307	–	67,916
Current portion of long-term debt	–	133,172	–	133,172
Contingent consideration	–	10,171	–	10,171
Total current liabilities	119,229	555,668	238,056	912,953
Non-current liabilities				
Long-term debt	–	6,428,578	–	6,428,578
Current portion of notes payable	–	155,031	–	155,031
Convertible debenture	–	–	334,310	334,310
Deferred tax liability	215,086	–	–	215,086
Liabilities associated with assets held for sale	–	97,878	–	97,878
Total liabilities	334,315	7,237,155	572,366	8,143,836

(expressed in Canadian dollars)

16 Segment reporting (continued)

ASSETS	Franchising and licensing December 31, 2012 $	Corporate locations December 31, 2012 $	Corporate Overhead December 31, 2012 $	Total December 31, 2012 $
Current assets				
Cash	47,781	96,716	387,543	532,040
Cash attributable to the Ad Fund	48,031	–	–	48,031
Trade receivables	117,373	295,503	11,188	424,064
Prepaid expenses	31,059	46,562	20,328	97,949
Notes receivable from franchisees	40,765	–	–	40,765
Total current assets	285,009	438,781	419,059	1,142,849
Non-current assets				
Notes receivable from franchisees	193,669	–	–	193,669
Equipment	–	1,109,993	2,112	1,112,105
Intangible assets	941,110	1,270,551	998,919	3,210,580
Goodwill	–	1,361,705	–	1,361,705
Assets held for sale	–	286,952	–	286,952
Total assets	1,419,788	4,467,982	1,420,090	7,307,860
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	144,610	248,085	111,815	504,510
Current portion of notes payable	15,213	66,170	–	81,383
Current portion of long-term debt	–	99,692	–	99,692
Contingent consideration	–	14,924	–	14,924
Total current liabilities	159,823	428,871	111,815	700,509
Non-current liabilities				
Long-term debt	–	6,292,452	–	6,292,452
Current portion of notes payable	–	137,410	–	137,410
Convertible debenture	–	–	333,119	333,119
Deferred tax liability	214,188	–	–	214,188
Liabilities associated with assets held for sale	–	105,178	–	105,178
Total liabilities	374,011	6,963,911	444,934	7,782,856

The Company sold $333,174 in capital assets relating to its corporate operations during the three months ended March 31, 2013 and purchased $517,951 in capital assets relating to its corporate operations during the same period. The Company incurred $653,700 in capital expenditures relating to the acquisition of New York City, during the three months ended March 31, 2012. The Company did not incur capital expenditures related to its franchising operations for the three months ended March 31, 2013 (for the three months ended March 31, 2012 - $1,585).

(expressed in Canadian dollars)

16 Segment reporting (continued)

Geographic information

Canada	March 31, 2013 $	December 31, 2012 $
Equipment	2,037	2,112
Intangible assets	950,589	998,919
United States		
Notes receivable from franchisees	231,968	234,434
Equipment	1,298,874	1,109,993
Intangible assets	2,144,751	2,211,661
Goodwill	1,392,090	1,361,705
Assets held for sale	279,532	286,952
Total		
Notes receivable from franchisees	231,968	234,434
Equipment	1,300,911	1,112,105
Intangible assets	3,095,340	3,210,580
Goodwill	1,392,090	1,361,705
Assets held for sale	279,532	286,952

Revenue

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

For the three months ended,	March 31, 2013 $	March 31, 2012 $
United States		
Royalties	225,615	201,627
Franchise fees	–	93,487
Shredding services	547,581	641,168
Sale of paper products	127,035	164,768
Middle East		
License fees	1,165	–

(expressed in Canadian dollars)

16 Segment reporting (continued)

Net loss by operating segment

Total net loss by reportable operating segment is as follows:

	For the three months ended March 31, 2013			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	226,780	674,616	–	901,396
Direct costs	–	(489,777)	–	(489,777)
Corporate overhead	(121,967)	(97,421)	(160,209)	(379,597)
Depreciation and amortization	(115,039)	(111,503)	–	(226,542)
Foreign exchange gain	–	–	116,711	116,711
Interest expense	–	(156,536)	(8,221)	(164,757)
Interest income	2,645	–	–	2,645
Gain on sale of assets	–	3,797	–	3,797
Income tax recovery	12,369	–	–	12,369
Net income (loss) from continuing operations	4,788	(176,824)	(51,719)	(223,755)

	For the three months ended March 31, 2012			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	295,114	805,936	–	1,101,050
Direct costs	–	(605,545)	–	(605,545)
Corporate overhead	(151,347)	(68,055)	(252,330)	(471,732)
Loss on pre-existing relationship	–	(350,700)	–	(350,700)
Depreciation and amortization	(124,507)	(144,144)	–	(268,651)
Foreign exchange loss	–	–	(108,696)	(108,696)
Interest expense	–	(138,367)	–	(138,367)
Interest income	481	–	–	481
Income tax recovery	18,690	–	–	18,690
Net income (loss) from continuing operations	38,431	(500,875)	(361,026)	(823,470)

17 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. Included in accounts receivable at March 31, 2013, is $198 (December 31, 2012 - $1,945) due from this franchise. During the three months ended March 31, 2013, the Company earned royalty and service fees amounting to $18,237 (2012 - $19,312) from this franchise.

The Director's franchise is currently managing on the Company's behalf the Proshred Miami business acquired by the Company. The Company earned royalty and service fees of $6,733 during the three months ended March 31, 2013 from the Miami operations. Included in accounts receivable at March 31, 2013 is $1,988 due from the Miami operations (December 31, 2012 - $2,528).

The Company has a line of credit facility with a related party entity, one of the Company's significant shareholders, for a maximum of $6.03 million, repayable on November 27, 2014, bearing interest at a fixed rate of 10% per annum. The Company has drawn from its line of credit in order to finance the purchase of its' corporate locations including Syracuse, Albany, Milwaukee in 2010 and New York City and Miami in 2012 as well as for general business purposes. Refer to Note 8 for additional information.

Included in selling, general and administrative expenses for the three months ended March 31, 2013 are insurance premium amounts of $4,287 (March 31, 2012- $6,650) paid to an insurance brokerage firm, a Director of the Company.

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