

RediShred Capital Corp.

Consolidated Interim Financial Statements

September 30, 2012 and 2011

(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

November 28, 2012

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 September 30, 2012.

RediShred Capital Corp.

Consolidated Statements of Financial Position

(Unaudited – expressed in Canadian dollars)

As at,	September 30, 2012 \$	December 31, 2011 \$
Assets		
Current assets		
Cash	152,376	3,011,786
Cash attributable to the Ad Fund (note 3)	28,349	137,818
Accounts receivable	526,964	460,114
Prepaid expenses	78,526	63,596
Notes receivable from franchisees	52,769	62,859
Income taxes recoverable	–	17,603
Total current assets	838,984	3,753,776
Non-current assets		
Notes receivable from franchisees	165,664	183,619
Equipment (note 5)	1,373,120	565,294
Deferred financing charges	49,694	66,259
Intangible assets (note 6)	4,139,578	3,558,806
Goodwill (notes 7)	1,377,513	878,270
Total assets	7,944,553	9,006,024
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	629,672	686,167
Current portion of notes payable	81,383	22,028
Deferred revenue	–	10,170
Current portion of long-term debt (note 8)	134,691	53,176
Contingent consideration (note 4)	14,756	–
Total current liabilities	860,502	771,541
Non-current liabilities		
Long-term debt (note 8)	6,147,174	5,544,805
Notes payable	156,549	–
Deferred tax liability	341,600	410,110
Total liabilities	7,505,825	6,726,456
Shareholders' Equity	438,728	2,279,568
Total liabilities and shareholders' equity	7,944,553	9,006,024
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

(Unaudited – expressed in Canadian dollars)	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2012	2011	2012	2011
	\$	\$	\$	\$
Revenue (note 10)	1,073,287	757,315	3,140,168	2,295,785
Corporate operating locations expenses (note 11)	(767,158)	(360,300)	(2,263,652)	(1,127,167)
Selling, general and administrative expenses (note 12)	(761,707)	(640,164)	(1,980,151)	(1,851,396)
Loss before interest, income taxes and other items	(455,578)	(243,149)	(1,103,635)	(682,778)
Recovery of bad-debt expense (note 4)	167,580	–	167,580	–
Loss on settlement of pre-existing relationship (note 4)	(135,110)	–	(487,175)	–
Loss on sale of assets (note 5)	(24,895)	–	(24,895)	–
Interest expense	(151,488)	(70,322)	(430,054)	(208,675)
Interest income	1,408	866	3,860	2,359
Loss before income taxes	(598,083)	(312,605)	(1,874,319)	(889,094)
Income tax recovery	6,687	2,659	41,070	8,659
Net loss for the period	(591,396)	(309,946)	(1,833,249)	(880,435)
Other comprehensive income (loss), net of tax				
Foreign currency translation gain (loss)	(8,443)	82,490	(8,987)	197,673
Comprehensive loss for the period	(599,839)	(227,456)	(1,842,236)	(682,762)
Net loss per share				
Basic and diluted	(0.02)	(0.01)	(0.06)	(0.03)
Weighted average number of commons shares outstanding – basic and diluted	28,884,658	28,884,658	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

(Unaudited – expressed in Canadian dollars)

	Capital stock and warrants \$ (note 9)	Contributed surplus \$	Accumulated other comprehensive income/ (loss) \$	Deficit \$	Total shareholders' equity \$
Balance – January 1, 2011	8,585,808	297,839	(74,450)	(6,099,581)	2,709,616
Net income/(loss) for the period	–	–	–	(880,435)	(880,435)
Other comprehensive income Foreign currency translation income/(loss)	–	–	197,673	–	197,673
Comprehensive income/(loss) for the period	–	–	–	–	(682,762)
Stock-based compensation	–	16,667	–	–	16,667
Balance – September 30, 2011	8,585,808	314,506	123,223	(6,980,016)	2,043,521
Net income/(loss) for the period	–	–	–	425,352	425,352
Other comprehensive income Foreign currency translation income/(loss)	–	–	(189,746)	–	(189,746)
Comprehensive income/(loss) for the period	–	–	–	–	235,606
Stock-based compensation	–	441	–	–	441
Balance – December 31, 2011	8,585,808	314,947	(66,523)	(6,554,664)	2,279,568
Net income/(loss) for the period	–	–	–	(1,833,249)	(1,833,249)
Other comprehensive income Foreign currency translation income/(loss)	–	–	(8,987)	–	(8,987)
Comprehensive income/(loss) for the period	–	–	–	–	(1,842,236)
Stock-based compensation	–	1,396	–	–	1,396
Balance – September 30, 2012	8,585,808	316,343	(75,510)	(8,387,913)	438,728

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

(Unaudited – expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2012	2011	2012	2011
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Net loss for the period before income taxes	(598,083)	(312,605)	(1,874,319)	(889,094)
Items not affecting cash				
Amortization of equipment and intangible assets	279,097	86,570	817,395	315,981
Stock-based compensation	496	510	1,396	16,667
Unrealized foreign currency loss	174,797	(79,693)	196,435	136,989
Allowance for doubtful receivables	(1,922)	–	(36,188)	–
Impairment of note receivable	(15,089)	14,672	–	43,979
Loss on settlement of pre-existing relationship	135,110	–	487,175	–
Recovery of bad-debt	(167,580)	–	(167,580)	–
Income taxes paid	–	(11,964)	–	(66,738)
	(193,174)	(302,510)	(575,686)	(442,216)
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	65,614	(67,599)	(55,834)	(215,748)
Decrease (increase) prepaid expenses	(6,526)	(52,382)	(16,769)	(41,118)
Decrease (increase) in income taxes recoverable	10,536	–	17,603	–
Increase (decrease) in deferred revenue	–	35,000	(10,170)	63,247
Increase (decrease) in accounts payable and accrued liabilities	58,224	285,272	(71,692)	146,460
Increase (decrease) in notes payable	(10,162)	(125,084)	215,910	(127,883)
	(75,488)	(227,303)	(496,638)	(617,258)
Financing activities				
Cash paid on current portion of long-term debt	(16,061)	–	(41,517)	–
Borrowings from line of credit facility	126,638	–	376,638	–
Increase in truck loans	246,856	–	246,856	–
	357,433	–	581,977	–
Investing activities				
Cash paid on acquisition of franchise	(114,658)	–	(2,424,166)	–
Increase of notes payable related to the acquisition of franchise	4,740	–	(221,333)	–
Other consideration paid on acquisition of franchise	(14,756)	–	(108,841)	–
Net Ad Fund position	24,993	(32,968)	109,469	(27,132)
Sale of capital assets	120,000	–	120,000	–
Purchase of capital assets	(368,485)	(5,954)	(405,220)	(29,141)
Collection of notes receivable from franchisees	11,667	20,040	35,342	42,315
Increase of notes receivable from franchisees	(50,000)	–	(50,000)	(27,809)
	(386,499)	(18,882)	(2,944,749)	(41,767)
Effect of foreign exchange rate changes on cash				
	(2,520)	25,557	(10,962)	(1,921)
Net change in cash for the period	(102,034)	(271,740)	(2,848,448)	(657,104)
Cash – Beginning of the period	256,930	487,898	3,011,786	900,470
Cash – End of the period	152,376	241,715	152,376	241,715

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

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – 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 four locations in the United States and, (3) licensing internationally.

These condensed consolidated interim financial statements comprise the financial statements of Redishred and its subsidiaries as at September 30, 2012. Together, Redishred and its subsidiaries are referred to as “the Company.”

The consolidated financial statements of the Company for the three and nine months ended September 30, 2012 were authorized for issue in accordance with a resolution of the Directors on November 28, 2012.

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, 2011, which includes information necessary or useful to understanding the Company’s business and financial statement presentation.

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2011 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 consolidated financial statements of the Company have been prepared on a going concern basis, under the historical cost convention and are presented in Canadian dollars, which is Redishred’s presentation currency.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

3 Cash attributable to the Ad Fund

The Company manages an advertising fund (the “Ad Fund”) established to collect and administer funds, based on a percentage of each location’s revenue, contributed by franchisees and Company owned and operated locations. It is used for regional and national advertising and marketing programs as well as initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. As at September 30, 2012, the Ad Fund was in a net surplus position of \$106,167 (December 31, 2011 - \$160,100), with cash attributable to the Ad Fund amounting to \$28,349 (December 31, 2011 - \$137,818) included in the Company’s cash balance.

4 Acquisition of franchise

On July 13, 2012, the Company, through its wholly-owned subsidiary, Redishred Acquisition Inc., acquired the Proshred Miami franchise. Redishred has satisfied the purchase price in part by setting off amounts owed by the vendor to the Company. Redishred has funded the \$120,000 USD balance of the purchase price by drawing from its line of credit facility. The Miami business is currently operated by one of the Company’s franchise locations. (Refer to note 17). The Company earns royalty revenue and rental revenue from the franchise location currently operating the Miami business. Redishred conducted the acquisition to settle the legal complaint filed against the Company, enter into a strong market and secure a loyal customer base. The Company is currently reviewing its strategic options related to this purchase. The following table outlines the preliminary purchase price allocation of the assets acquired and consideration given on the closing date of the acquisition:

	Miami
	\$
Assets acquired	
Equipment	22,460
Customer relationships	86,777
Re-acquired franchise rights	<u>122,508</u>
	<u>231,745</u>
Consideration given	
Cash	122,507
Contingent consideration	15,314
Settlement of accounts and notes receivable ¹	<u>225,643</u>
Total	413,464
Settlement of pre-existing relationship	<u>(131,720)</u>
	<u>231,744</u>
Acquisition costs (expensed in statement of comprehensive loss)	<u>7,092</u>

¹ \$167,580 in previously written off accounts and notes receivable were recovered in the Consolidated Statement of Comprehensive Loss.

The Company translated the fair values of all assets acquired using the exchange rate on the date of acquisition. The acquisition was translated at \$1USD = \$1.0209CAD. The Company is committed to pay contingent consideration in respect of the acquisition, if the business achieves certain performance targets on a quarterly basis for a period of nine months. In accordance with IFRS 3, the Company has recorded a liability for the estimated fair value of the contingent consideration at the acquisition date. The fair values of the assets were determined on the basis of observable market prices, where possible. The fair values of intangible assets were determined using income-oriented approaches involving 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. As well as using a multi-period excess earnings method to value reacquired franchise rights.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

5 Equipment

Cost	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2011	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
Acquisitions	7,500	5,750	160,000	95,875	380,790	80,000	31,500	761,415
Additions	23,612	–	15,879	116,463	251,061	–	–	407,015
Sale of assets	–	–	–	(20,798)	(124,035)	–	–	(144,833)
Foreign exchange	(1,996)	(961)	(4,231)	(10,277)	(17,878)	(1,515)	(737)	(37,595)
As at September 30, 2012	120,484	57,992	223,132	400,884	962,548	84,947	37,577	1,887,566
Accumulated depreciation and impairment								
	Computer	Furniture &	Bins &	Shredding	Shredding	Recycling	Vehicles	Total
	equipment	fixtures	shredding	vehicles -	vehicles -	equipment		
	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2011	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
Depreciation	3,731	3,482	33,466	37,184	94,511	13,589	4,046	190,009
Foreign exchange	(1,503)	(872)	(904)	(2,492)	(5,540)	(380)	(140)	(11,831)
As at September 30, 2012	90,692	52,649	43,494	92,273	211,105	18,056	6,177	514,446
Net book value								
As at December 31, 2011	2,904	3,164	40,552	162,040	350,476	1,615	4,543	565,294
As at September 30, 2012	29,792	5,343	179,638	308,611	751,443	66,891	31,400	1,373,120

The Company acquired equipment as part of the acquisitions entered into on January 1, 2012 and July 13, 2012. The Company also purchased computers, bins, shredding containers and handheld devices during the nine months ended September 30, 2012. During the three months ended September 30, 2012, the Company sold two of its' shredding vehicles and purchased two new shredding vehicles obtaining vendor financing (refer to note 7). During the year ended December 31, 2011, the Company purchased bins, shredding containers and a vehicle. The foreign exchange adjustment is a result of the translation of corporate equipment from US dollars to Canadian dollars at September 30, 2012 and December 31, 2011. 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."

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

6 Intangible assets

Cost	Franchise	Proshred	Computer	Trademarks and intellectual	Re-acquired	Customer	Total
	agreements	system	software	property	franchise rights	relationships	
	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2011	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
Acquisitions	–	–	–	–	960,000	312,000	1,272,000
Foreign exchange	(112,654)	–	–	–	(33,297)	(14,244)	(160,195)
As at September 30, 2012	2,677,922	978,000	432,534	1,672,500	1,465,713	577,432	7,804,101

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, 2011	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
Amortization	186,525	69,543	–	97,839	212,803	39,471	606,181
Foreign exchange	(64,585)	–	–	–	(8,837)	(1,726)	(75,148)
As at September 30, 2012	1,351,690	475,712	432,534	965,864	367,933	70,790	3,664,523

Net book value							
As at December 31, 2011	1,560,826	571,831	–	804,475	375,043	246,631	3,558,806
As at September 30, 2012	1,326,232	502,288	–	706,636	1,097,780	506,642	4,139,578

As a result of the acquisition of the New York City and Miami franchises, the Company recorded customer relationships and re-acquired franchise rights as intangible assets in the first and third quarter of 2012, respectively. The foreign exchange adjustment is a result of the translation of intangible assets denominated in US dollars to Canadian dollars at September 30, 2012 and December 31, 2011.

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 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.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

7 Goodwill

The following table presents goodwill for the nine months ended September 30, 2012 and for the year ended December 31, 2011:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
	\$	\$
Opening balance	878,270	1,112,232
Acquisitions	536,750	–
Impairment of goodwill	–	(250,494)
Foreign currency translation	(37,507)	16,532
	<hr/>	<hr/>
Closing balance	<u>1,377,513</u>	<u>878,270</u>

8 Long-term debt

As at September 30, 2012 and December 31, 2011 long-term debt is comprised of:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
	\$	\$
Line of credit	5,746,638	5,370,000
Truck loans	535,227	227,981
	<hr/>	<hr/>
Total long-term debt	6,281,865	5,597,981
Less: current portion	134,691	53,176
	<hr/>	<hr/>
Total	<u>6,147,174</u>	<u>5,544,805</u>

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. 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. In March 2012, the line of credit limit was increased to \$6.0 million, repayable on November 27, 2014; all other terms of the agreement remained unchanged. In July 2012, the Company drew from its line of credit in order to finance the purchase of the Miami business on July 13, 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 \$297,473.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

8 Long-term debt (continued)

On July 5, 2012, the Company entered into a loan and security agreement in the amount of US\$121,128, repayable on a monthly basis in the amount of US\$3,718 principal and interest until July 5, 2015. The loan bears interest at 6.502% per annum and is secured by one shredding vehicle with a carrying value of \$116,889. The value of the loan on September 30, 2012 is \$113,156.

On August 3, 2012, the Company entered into a loan and security agreement in the amount of US\$125,556, repayable on a monthly basis in the amount of US\$2,545 principal and interest until August 13, 2017. The loan bears interest at 8% per annum and is secured by one shredding vehicle with a carrying value of \$178,328. The value of the loan on September 30, 2012 is \$121,828.

On August 8, 2012, the Company entered into a loan and security agreement in the amount of US\$121,000, repayable on a monthly basis in the amount of US\$2,379 principal and interest until August 8, 2017. The loan bears interest at 6.506% per annum and is secured by one shredding vehicle with a carrying value of \$179,242. The value of the loan on September 30, 2012 is \$117,650.

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 September 30, 2012 and the year ended December 31, 2011, 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		Total
	Number	\$	Number	\$	\$
Balance, September 30, 2012 and December 31, 2011	<u>28,884,658</u>	<u>8,297,602</u>	<u>4,000,000</u>	<u>288,206</u>	<u>8,585,808</u>

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the quarter ended September 30, 2012, was 28,884,658 (December 31, 2011 - 28,884,658).

d) Stock options

At September 30, 2012, the Company has 720,000 options outstanding (December 31, 2011 – 1,677,500) and a weighted average exercise price of \$0.27 (December 31, 2011 - \$0.24).

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

9 Capital stock (continued)

d) During the nine months ended September 30, 2012, 875,000 stock options expired. There have been 17,500 stock options granted during the nine months ended September 30, 2012 (for the nine months ended September 30, 2011 – 145,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$1,396 (for the nine months ended September 30, 2011 – \$16,667). Subsequent to the third quarter, the Company granted options to certain Directors of the Company to purchase an aggregate of 975,000 common shares. The granting of new stock options follows the expiry of their original Stock Option Agreements dated August 29, 2007. The new stock option grants are on substantially the same terms as those that have expired. The options were granted effective November 23, 2012 at an exercise price of \$0.20, with 100% of the options vesting upon execution, and with a term of five years.

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. The exercise prices for the warrants range between \$0.25 and \$0.45.

10 Revenue

The revenue earned by the Company is broken down as follows:

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2012	2011	2012	2011
	\$	\$	\$	\$
Royalties	203,609	243,535	613,157	705,159
Franchise fees	140,033	–	233,883	62,015
Shredding services	584,741	342,179	1,844,795	1,069,778
Sale of paper products	144,904	171,601	448,333	458,833
Total revenue	1,073,287	757,315	3,140,168	2,295,785

On January 1, 2012 the Company converted the New York City franchise location to a corporate location. In 2012, the Company earns revenue from shredding services and through the sale of paper products related to the New York City corporate location. In 2011 the Company earned royalty revenue from the New York City franchise location.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

11 Corporate operating locations expenses by nature

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2012	2011	2012	2011
	\$	\$	\$	\$
Shredding expenses	205,525	85,238	564,473	262,760
Employee wages expense	250,304	128,492	772,858	389,196
Employee benefit expense	55,036	32,684	160,288	88,721
Office and administration expense	100,211	42,138	321,160	172,693
Depreciation – equipment	67,667	32,507	191,968	96,265
Amortization – intangible assets	88,415	39,241	252,905	117,532
Total corporate operating expenses	767,158	360,300	2,263,652	1,127,167

During the nine months ended September 30, 2012, the Company operated four corporate locations – Syracuse, Albany, Milwaukee and New York City. During the nine months ended September 30, 2011, the Company operated three corporate locations – Syracuse, Albany and Milwaukee.

12 Selling, general and administrative expenses by nature

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2012	2011	2012	2011
	\$	\$	\$	\$
Employee wages expense	237,301	190,366	612,649	566,731
Employee benefits expense	8,052	10,011	38,625	46,470
Share-based compensation	496	509	1,396	16,667
Professional fees	39,607	377,799	319,797	598,133
Technology	40,692	27,466	109,241	84,275
Rent and office expense	16,377	18,016	50,512	53,493
Selling and marketing	71,809	7,843	109,301	62,764
Bad debt expense	(15,038)	14,672	–	43,979
Amortization of deferred financing charges	5,522	5,522	16,565	16,565
Depreciation – equipment	–	–	–	5,553
Amortization – intangible assets	117,702	9,300	355,958	80,133
Foreign exchange loss (gain)	188,979	(100,097)	210,617	64,417
Other	50,208	78,757	155,490	212,216
Total selling, general and administrative expenses	761,707	640,164	1,980,151	1,851,396

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

12 Selling, general and administrative expenses by nature (continued)

Compensation of key management

Included in employee wages and benefits expense in selling, general and administrative expenses is key management personnel compensation as follows:

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2012	2011	2012	2011
	\$	\$	\$	\$
Wages and benefits	121,601	147,993	439,408	449,920
Severance pay	36,250	–	54,375	–
Share-based compensation	61	3,687	520	22,956
Total	157,912	151,680	494,303	472,876

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. Key management personnel compensation includes wages and benefits for the Chief Executive Officer, former Chief Executive Officer, Chief Financial Officer, Vice President of Operations and former Chief Operating Officer.

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, 2013; Syracuse, which expires on August 31, 2015; and New York City, which expires on April 30, 2013. During the three months ended September 30, 2012, the Company entered into two new leases in Milwaukee, which expires on August 31, 2017 and New York City, which expires on September 30, 2015. Certain contracts include renewal options for various periods of time. For the nine months ended September 30, 2012, the Company incurred \$210,241 (September 30, 2011 - \$68,750) 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	259,055
Between 1 and 5 years	223,480
More than 5 years	–
Total	482,535

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

13 Commitments and contingency (continued)

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 Proshred Franchising Corp. (“PFC”), (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. On July 13, 2012, in conjunction with the purchase of the Proshred Miami business, the Miami franchisee permanently withdrew from the legal complaint. As of September 30, 2012 and November 28, 2012, one franchisee remains in the legal complaint and three franchisees have permanently withdrawn.

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

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

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 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 interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has a fixed rate on notes receivable from franchisees ranging from 4.25% to 5.25% per annum, and the line of credit facility has a fixed interest rate of 10% per annum. The truck loans have a fixed interest rate ranging from 6.502% to 8.14% per annum. These financial instruments are subject to interest rate fair value risk, as their fair values will fluctuate as a result of changes in market rates.

Credit risk

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

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

Credit risk (continued)

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 September 30, 2012, 3 franchisees accounted for 15% of the accounts receivable balance (December 31, 2011 - 3 franchises accounted for 50%). For the nine months ended September 30, 2012, 3 franchisees accounted for 31% of the Company's franchise revenues (September 30, 2011 - 3 franchisees accounted for 28%). As of September 30, 2012, there is no accounts receivable over 90 days old (December 31, 2011 – 37% of accounts receivable were over 90 days old and related to one franchise). The over 90 day old accounts receivable outstanding at year-end were settled as a result of the purchase of the New York City franchises on January 1, 2012.

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 September 30, 2012 and December 31, 2011, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2012 and September 30, 2011, no customer accounted for more than 10% of the Company's shredding and recycling revenues. As of September 30, 2012, 9% of accounts receivable from shredding customers were over 90 days old (December 31, 2011 – 10%). The Company has not recorded an allowance for credit losses from accounts receivable as the Company does not have any reason to believe it will not collect all remaining balances.

Foreign exchange risk

Since the Company operates internationally, it is exposed to currency risks as a result of potential exchange rate fluctuations. The Company earns revenue in US currency and incurs expenses in both US and Canadian currency. The Company manages its exposure to currency risk by billing for its services in US currency and in the underlying currency related to the expenditure. The Company's principal operations are located in the United States. The results of these operations have been translated into Canadian dollars at an average rate for the period of USD\$1.00 = CAD\$1.0025 (September 30, 2011 – USD\$1.00 = CAD\$0.9773). Assets and liabilities have been translated using the exchange rate at the date of the statement of financial position of USD\$1.00 = CAD\$0.9837 (September 30, 2011 – USD\$1.00 = CAD\$1.0326). Fluctuations in the Canadian dollar and the US dollar 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, the total impact to net loss for the nine months ended September 30, 2012 would be a decrease/increase of approximately \$13,500.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of \$8.3 million at September 30, 2012. 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 \$860,502 at September 30, 2012 (December 31, 2011 - \$771,541), are due to be settled within one year from the balance sheet date.

At September 30, 2012, the Company has cash of \$152,376. The Company also has access to a \$6 million line of credit, of which \$5.74 million has been drawn as of September 30, 2012. The line of credit is repayable on November 27, 2014 and interest payments are due semi-annually.

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.

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	629,672	–	–	–
Notes payable	1,558	78,575	158,323	–
Long-term debt	32,550	101,315	6,147,483	–
Contingent consideration	4,919	9,837	–	–
Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	222	540	486	–
Long-term debt	297,976	311,063	908,853	–
Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	629,672	–	–	–
Notes payable	1,780	79,115	158,809	–
Long-term debt	330,526	412,378	7,056,336	–
Contingent consideration	4,919	9,837	–	–

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

14 Financial instruments and fair values (continued)

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 September 30, 2012, amounted to \$172,052 (December 31, 2011 - \$246,447) with fair value estimated to amount to \$153,552 (December 31, 2011 - \$225,081).

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 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).

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

16 Segment reporting (continued)

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

	Franchising and licensing		Corporate locations		Total	
	September 30, 2012 \$	December 31, 2011 \$	September 30, 2012 \$	December 31, 2011 \$	September 30, 2012 \$	December 31, 2011 \$
ASSETS						
Current assets						
Cash	57,247	218,286	95,129	2,793,500	152,376	3,011,786
Cash attributable to Ad Fund	28,349	137,818	–	–	28,349	137,818
Trade receivables	113,391	201,972	413,573	258,142	526,964	460,114
Prepaid expenses	56,141	22,789	22,385	40,807	78,526	63,596
Notes receivable from franchisees	52,769	62,859	–	–	52,769	62,859
Income tax recoverable	–	17,603	–	–	–	17,603
Total current assets	307,897	661,327	531,087	3,092,449	838,984	3,753,776
Non-current assets						
Notes receivable from franchisees	165,664	183,619	–	–	165,664	183,619
Equipment	1,780	–	1,371,340	565,294	1,373,120	565,294
Deferred financing charges	49,694	66,259	–	–	49,694	66,259
Intangible assets	2,535,156	2,937,129	1,604,422	621,677	4,139,578	3,558,806
Goodwill	–	–	1,377,513	878,270	1,377,513	878,270
Total assets	3,060,191	3,848,334	4,884,362	5,157,690	7,944,553	9,006,024
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	283,966	370,980	345,706	315,187	629,672	686,167
Deferred revenue	–	10,170	–	–	–	10,170
Notes payable	–	–	81,383	22,028	81,383	22,028
Current portion of long-term debt	–	–	134,691	53,176	134,691	53,176
Contingent consideration	–	–	14,756	–	14,756	–
Total current liabilities	283,966	381,150	576,536	390,391	860,502	771,541
Non-current liabilities						
Long-term debt	–	–	6,147,174	5,544,805	6,147,174	5,544,805
Notes payable	–	–	156,549	–	156,549	–
Deferred tax liability	341,600	410,110	–	–	341,600	410,110
Total liabilities	625,566	791,260	6,880,259	5,935,196	7,505,825	6,726,456

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

16 Segment reporting (continued)

The Company incurred \$1,151,306 in capital expenditures relating to its corporate operations, including assets attained via acquisitions, during the nine months ended September 30, 2012 (for the year ended December 31, 2011- \$29,821). The Company incurred \$3,364 in capital expenditures relating to its franchising operations for the nine months ended September 30, 2012 (for the year ended December 31, 2011 - \$nil).

Geographic information

	September 30, 2012	December 31, 2011
Canada	\$	\$
Equipment	1,780	–
Deferred financing charges	49,694	66,259
Intangible assets	1,208,924	1,376,307
United States		
Notes receivable from franchisees	218,433	246,477
Equipment	1,371,340	565,294
Intangible assets	2,930,654	2,182,499
Goodwill	1,377,513	878,270
Total		
Notes receivable from franchisees	218,433	246,477
Equipment	1,373,120	565,294
Deferred financing charges	49,694	66,259
Intangible assets	4,139,578	3,558,806
Goodwill	1,377,513	878,270

Revenue

All revenues were attributed to the United States.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

16 Segment reporting (continued)

Net income (loss) by operating segment

Total net income (loss) by reportable operating segment is as follows:

	For the three months ended September 30, 2012			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	343,641	729,646	–	1,073,287
Direct costs	–	(611,285)	–	(611,285)
Corporate overhead	(288,764)	(70,415)	(90,115)	(449,294)
Loss on pre-existing relationship	(135,110)	–	–	(135,110)
Recovery of bad-debt	167,580	–	–	167,580
Loss on sale of assets	–	(24,895)	–	(24,895)
Depreciation and amortization	(123,224)	(156,083)	–	(279,307)
Foreign exchange gain/(loss)	–	–	(188,979)	(188,979)
Interest expense	–	(151,488)	–	(151,488)
Interest income	1,408	–	–	1,408
Income tax recovery	6,687	–	–	6,687
Net income (loss)	(27,782)	(284,520)	(279,094)	(591,396)

	For the three months ended September 30, 2011			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	243,535	513,780	–	757,315
Direct costs	–	(288,551)	–	(288,551)
Corporate overhead	(596,046)	(35,113)	(94,281)	(728,440)
Depreciation and amortization	(14,821)	(71,749)	–	(86,570)
Foreign exchange gain/(loss)	–	–	100,097	100,097
Interest expense	–	(70,322)	–	(70,322)
Interest income	866	–	–	866
Income tax recovery	2,659	–	–	2,659
Net income (loss)	(363,807)	48,045	5,817	(309,946)

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

16 Segment reporting (continued)

Net income (loss) by operating segment (continued)

	For the nine months ended September 30, 2012			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	847,040	2,293,128	–	3,140,168
Direct costs	–	(1,818,779)	–	(1,818,779)
Corporate overhead	(860,249)	(209,047)	(327,717)	(1,397,013)
Depreciation and amortization	(372,522)	(444,872)	–	(817,394)
Foreign exchange loss	–	–	(210,617)	(210,617)
Interest expense	–	(430,054)	–	(430,054)
Interest income	3,860	–	–	3,860
Income tax recovery	41,070	–	–	41,070
Loss on pre-existing relationship	(487,175)	–	–	(487,175)
Recovery of bad-debt	167,580	–	–	167,580
Loss on sale of assets	–	(24,895)	–	(24,895)
Net income (loss)	(660,396)	(634,519)	(538,334)	(1,833,249)

	For the nine months ended September 30, 2011			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	767,174	1,528,611	–	2,295,785
Direct costs	–	(913,436)	–	(913,436)
Corporate overhead	(1,235,331)	(141,442)	(307,890)	(1,684,663)
Depreciation and amortization	(102,251)	(213,796)	–	(316,047)
Foreign exchange loss	–	–	(64,417)	(64,417)
Interest expense	–	(208,675)	–	(208,675)
Interest income	2,359	–	–	2,359
Income tax recovery	8,659	–	–	8,659
Net income (loss)	(559,390)	51,262	(372,306)	(880,435)

For the three and nine months ended September 30, 2012, the Company operated four corporate locations. For the three and nine months ended September 30, 2011, the Company operated three corporate locations.

RediShred Capital Corp.

Notes to the Condensed Consolidated Financial Statements

(Unaudited – expressed in Canadian dollars)

17 Related party balances and transactions

A Director of the Company is the owner of the Tampa, Florida Proshred franchise. At September 30, 2012, there is a nil balance included in trade receivables due from the Director's franchise (December 31, 2011 - \$1,592). The Tampa, Florida franchise is currently operating the Proshred Miami business acquired by the Company. The Company earned royalty revenue and truck rental revenue of \$7,436 during the nine months ended September 30, 2012 related to the Miami operations. During the nine months ended September 30, 2012, the Company earned royalty and service fee amounts of \$63,498 (September 30, 2011 - \$63,892) from the Director's franchise and the Proshred Miami business.

Included in selling, general and administrative expenses for the nine months ended September 30, 2012 are insurance premium amounts of \$13,037 (September 30, 2011 - \$12,450) paid to an insurance brokerage firm owned by a Director of the Company and \$3,142 in recruiting services paid to a recruiting firm owned by a Director of the Company.

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

18 Subsequent Events

Subsequent to the third quarter, on October 24, 2012, the Company announced that it had entered into an agreement with a new franchisee to operate a Proshred shredding business in Richmond, Virginia. The Company expects its new franchise to commence operations in the first quarter of 2013.

On November 23, 2012 the Company granted options to certain Directors of the Company to purchase an aggregate of 975,000 common shares. The granting of new stock options follows the expiry of their original Stock Option Agreements dated August 29, 2007. The new stock option grants are on substantially the same terms as those that have expired. The options were granted at an exercise price of \$0.20, with 100% of the options vesting upon execution, and with a term of five years.

