## Overview of the Structure of the MD&A

The following management's discussion and analysis ("MD&A") for Redishred Capital Corp. (the "Company" or "Redishred") has been prepared by management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's annual report for 2009. These documents as well as additional information about the Company are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at November 25, 2010.

## Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In particular, certain statements in this document discuss Redishred's anticipated outlook of future events. These statements include, but are not limited to:

(i) the Company's ability to achieve breakeven levels of cash flow, which may be impacted by:
   a. the number of new franchises awarded,
   b. the size of the franchise territories awarded,
   c. the growth of the system sales achieved by existing and new franchisees,
   d. the economic circumstances in the franchisees local markets,
   e. the growth of sales achieved in corporate locations, and
   f. the level of corporate overhead;

(ii) franchise development or the awarding of franchises, which is subject to the identification and recruitment of candidates with the financial capacity and managerial capability to own and operate a Proshred franchise;

(iii) future acquisition activity which is subject to the identification of appropriate assets and agreement of suitable terms, as well as the availability of financing on suitable terms;

(iv) anticipated system sales and royalty revenue which may be impacted by industry growth levels which to date have been driven by favourable legislation and favourable media coverage on the impacts of identity theft;

(v) commodity paper prices which will vary with market conditions, and

(vi) the commencement of new franchise operations which may be delayed by the inability of the franchisee to comply with the franchise agreement terms and conditions post execution.

These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results

and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Corporation.

**Non-GAAP Measures**

There are measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- System sales are revenues generated by franchisees and corporately operated locations. The system sales generated by franchisees drive the Company's royalty and information technology fee revenues. The system sales generated by corporate locations are included in the Company's revenues.
- Same store system sales results are indicators of performance of franchisees and corporately operated locations that have been in the system for equivalent periods in 2010 and 2009.

**Company Overview**

The Company was incorporated under the *Canada Business Corporations Act* on October 18, 2006. The head office and the registered office of the Corporation as of September 30, 2010 were located at 6790 Century Avenue, Suite 200, Mississauga, Ontario, Canada. As of September 30, 2010 there were 18 Proshred locations awarded (see below) comprising of 72.4 territories. A territory is defined as a geographic area with 7,000 businesses having 10 or more employees. A franchise is defined as the right, granted by the Company, to operate a Proshred business in a certain geographic area(s). The Company operated the Syracuse location corporately as of May 1, 2010 and has been operating the Albany location corporately as of July 1, 2010. In addition, on July 26, 2010, the Company awarded a new franchise in San Diego, CA, which brings the territory count to 72.4 as of October 25, 2010. The Company's location list is as follows:

| No. | Franchise locations | Operating since | Territories |
|---|---|---|---|
| 1. | SPRINGFIELD, MA | June 2003 | 2.3 |
| 2. | MILWAUKEE, WI | August 2003 | 2.7 |
| 3. | TAMPA BAY, FL | March 2004 | 2.1 |
| 4. | DENVER, CO | August 2004 | 3.8 |
| 5. | CHARLOTTE, NC | April 2006 | 3.3 |
| 6. | PHILADELPHIA, PA | September 2006 | 5.0 |
| 7. | KANSAS CITY, MO | December 2006 | 4.0 |
| 8. | NEW HAVEN, CT | April 2007 | 3.6 |
| 9. | CHICAGO, IL | April 2007 | 3.8 |
| 10. | RALEIGH, NC | June 2007 | 4.7 |
| 11. | BALTIMORE, MD (includes Washington, DC) | November 2007 | 6.7 |
| 12. | NEW YORK CITY, NY (includes Long Island, NY) | January 2008 | 11.3 |
| 13. | MIAMI, FL | June 2008 | 5.7 |
| 14. | N. VIRGINIA, VA | July 2008 | 3.8 |
| 15. | ORANGE COUNTY, CA | September 2009 | 3.0 |
| | | *Franchises in operation* | *65.8* |
| 16. | SAN DIEGO, CA | October 2010 | 2.9 |
| | | *Subtotal* | *68.7* |

| No. | Corporate locations | Operating since | Territories |
|---|---|---|---|
| 17. | ALBANY, NY | April, 2003* | 1.2 |
| 18. | SYRACUSE, NY | March, 2004* | 2.5 |
| | | *Subtotal* | *3.7* |
| | | ***Grand Total*** | ***72.4*** |

** Syracuse has been corporately operated since May 1, 2010; Albany has been corporately operated since July 1, 2010.*

The Company continues to operate the Proshred franchising business (defined as the business of granting and managing franchises in the United States). The Company's plan is to grow its business by way of both franchising and the acquisition and operation of document destruction businesses that generate stable and recurring cash flow through a scheduled client base, continuous paper recycling, and concurrent unscheduled shredding service. On April 30, 2010, the Company acquired the Proshred Syracuse business from an existing franchisee for a purchase price of $317,000. This location marked the first corporate location to be operated by the Company, and also serves as a training facility for new franchisees. On June 30, 2010, the Company announced that it had completed the acquisition of the Proshred Albany business from an existing franchisee for an aggregate purchase price of $398,000 not including contingent consideration. Syracuse serves as the Company's regional head quarters, management and office functions have been consolidated in Syracuse, NY in order to realize operating efficiencies.

**Performance Compared to 2010 Goals and Objectives**

In the Company's 2009 Annual Report, management stated its 2010 goals and objectives. A review of the Company's performance in meeting these goals and objectives are included below:

| 2010 Goals and Objectives | Performance to September 30, 2010 | Comments/Revised Goals |
|---|---|---|
| Establish four new franchise locations. | On July 26, 2010, the Company awarded the San Diego, CA franchise. Operations commenced in October 2010.<br><br>*Subsequent to the third quarter*, the Company awarded its first international licence to operate in the Middle East. | The Company continues to invest in franchise development and marketing initiatives to ensure continued lead generation. ***Annual goal for franchise locations in the U.S. has been revised, the Company plans on awarding two new franchise locations in 2010. As a result of the new Middle East licence, franchise and licence fee revenue will be on target for 2010.*** |
| Establish two new corporate locations by way of acquisitions | Two corporate locations have been established by way of acquisitions during 2010. | On April 30, 2010, the Company completed its first acquisition with the purchase of the Proshred Syracuse assets and customers, establishing its first corporate location. On June 30, 2010 the Company completed its second acquisition by purchasing the Proshred Albany assets and customers, establishing its second corporate location. ***Annual goal has been attained.*** |
| Grow system sales from existing locations by 14% to $11.0M USD compared to 2009. | System sales from locations in operation more than one year were just under $9.6M USD for the first nine months of 2010, which is 37% higher than the same period last year. | Due to stronger than anticipated service sales in the first nine months of the fiscal year and a significant increase in the price of recycled paper, the Company is ahead of target. ***Management has revised its forecasted system sales growth from existing locations for the year to between 25% and 30%, assuming prices for recycled paper remain at current levels.*** |

**Selected Financial Data and Results of Operations**

The following table shows selected financial data for the three months and nine months ended September 30, 2010 and 2009. For the three months and nine months ended September 30, 2010, net loss diminished significantly by 54% and 49% respectively over the same period in the prior year.

| *(in CDN except where noted)* | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| System sales (USD) | **3,371,135** | 2,516,869 | 34% | **9,681,839** | 6,976,626 | 39% |
| Franchise and licence fees | **109,164** | 121,569 | (10)% | **109,164** | 143,321 | (24)% |
| Royalties and service fees | **236,639** | 208,857 | 13% | **713,744** | 612,739 | 16% |
| **Franchise related revenue** | **345,803** | 330,426 | 5% | **822,908** | 756,060 | 9% |
| Operating costs: | | | | | | |
| Recurring | **(458,787)** | (448,055) | 2% | **(1,234,004)** | (1,687,952) | (19)% |
| One-time | **-** | - | | **-** | (279,000) | (100)% |
| Total operating costs | **(458,787)** | (448,055) | 2% | **(1,234,004)** | (1,687,952) | (27)% |
| Corporate location revenue | **324,892** | - | - | **425,577** | - | - |
| Corporate location costs | **(262,752)** | - | - | **(347,651)** | - | - |
| **Net income from corporate locations** | **62,140** | - | - | **77,926** | - | - |
| Operating income (loss) | **(50,844)** | (117,629) | (56)% | **(333,170)** | (931,892) | (64)% |
| Net income (loss) | **(143,657)** | (315,990) | (54)% | **(750,132)** | (1,465,356) | (49)% |
| Loss per share | **(0.005)** | (0.01) | (64)% | **(0.03)** | (0.06) | (59)% |

The Company operates the Proshred system, and derives revenues from franchise and other fees as well as royalty and service related fees. The Company operates two corporate locations, one in Syracuse, New York and one in Albany, New York. These corporate locations generate shredding service revenue and recycling revenue as well as costs related to the marketing to and servicing of customers. The Company also incurs costs related to managing the Proshred system, including salaries and administration.

***Total Revenues***

Franchising and licensing:

| | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Franchise and license fees | **109,164** | 121,569 | (10)% | **109,164** | 143,321 | (24)% |
| Royalty and service fees | **236,639** | 208,857 | 13% | **713,744** | 612,739 | 16% |
| Total franchise and license related revenue | **345,803** | 330,426 | 5% | **822,908** | 756,061 | 9% |

The Company derives all franchise and licence related revenues in US dollars which are translated at the average exchange rate for the period. Royalties and service fees are charged for use of the trademarks and system, franchise and license fee revenue is generated when a franchise or license is awarded. For the nine months ended September 30, 2010, royalty and fee revenues, denominated in US dollars were $793,891 USD.

Corporate Store Operations:

| | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Shredding services | **246,777** | - | -% | **325,972** | - | -% |
| Recycling | **78,115** | - | -% | **99,604** | - | -% |
| Total shredding related revenue | **324,892** | - | -% | **425,577** | - | -% |

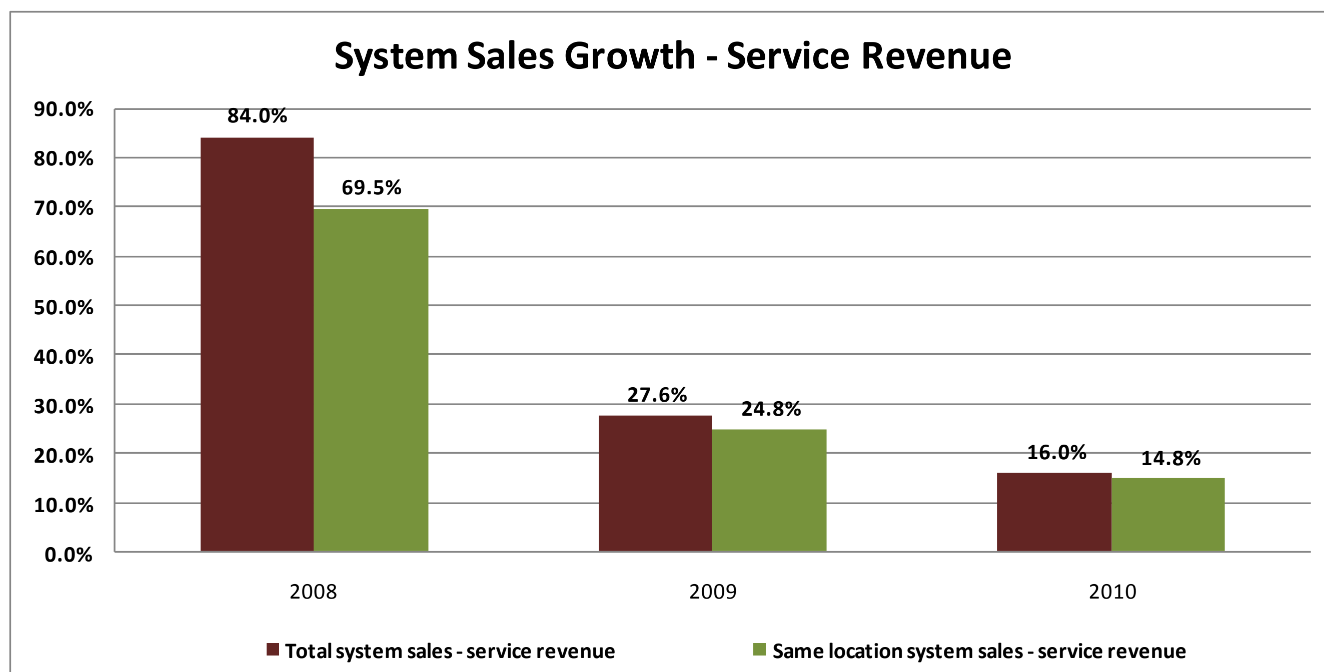
Shredding service and recycling revenue is generated by our corporate locations in Albany and Syracuse, New York. These revenues are generated in US dollars which are translated at the average exchange rate for the period. For the nine months ended September 30, 2010 shredding service and recycling revenues, denominated in US dollars were $410,570 USD.

***System Sales***

Franchisees and corporate locations derive revenue by providing shredding services to their customers, and by selling recycled paper and other recyclable by-products, these sales are commonly referred to as “system sales”, and are the key driver of royalty and service fee revenue. System sales are denominated and reported in US dollars during the reported periods as follows:

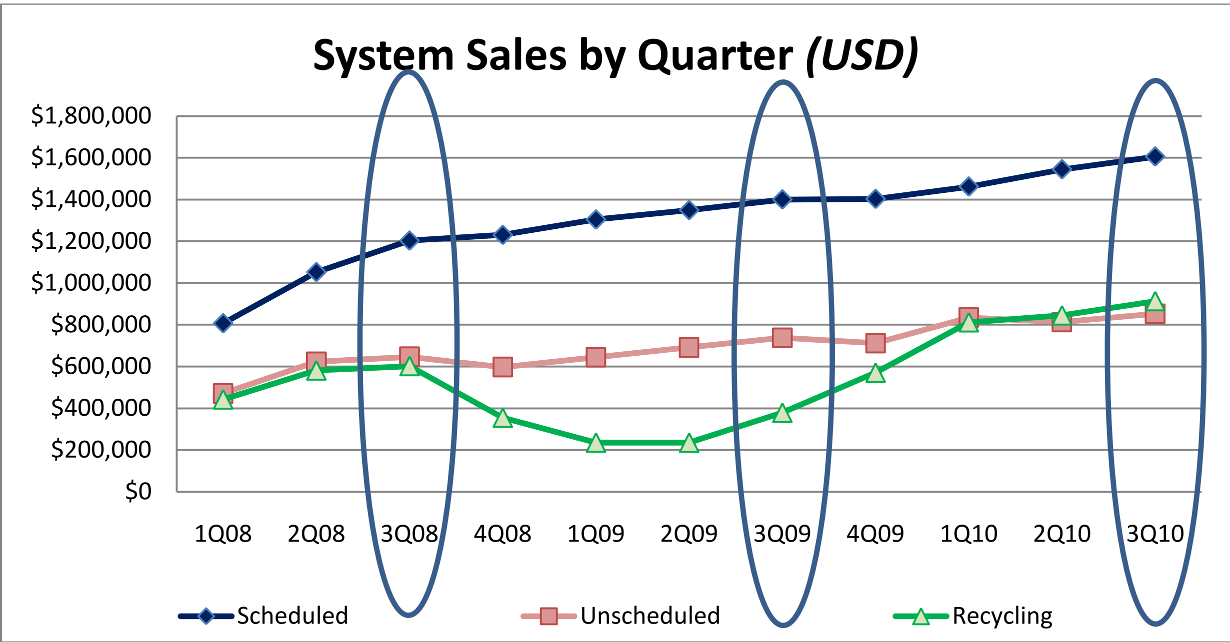
| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| Total operating locations at period end | **17** | 17 | -% | **17** | 17 | -% |
| Territories | **69.5** | 69.5 | -% | **69.5** | 69.5 | -% |
| Total system sales (USD) | **$3,371,135** | $2,516,869 | 34% | **$9,681,839** | $6,976,626 | 39% |
| Total system sales (CDN) | **$3,494,350** | $2,768,253 | 26% | **$10,035,710** | $8,162,443 | 23% |

System sales data for prior years has been collected by the Company’s subsidiary, Professional Shredding Corporation (“PSC”) prior to its acquisition by the Company. The following chart demonstrates system sales growth relating to service revenue earned (excluding recycling system sales) by the system since calendar year 2008. The 2010 year-to-date results are for the first, second and third quarter cumulative, and are compared to the same period in 2009 and 2008.



*System Sales Quarter Over Quarter:*

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




Service related system sales, scheduled and unscheduled, were $2,457,903 for the third quarter of 2010, setting a new quarterly record, growing by $319,888 over the third quarter of 2009.

Scheduled sales:

Scheduled sales are defined as the revenue generated from customers with regular service that may occur on a weekly, bi-weekly, or monthly basis. This category of service revenue is recurring in nature, usually on a monthly basis. Proshred's sales and marketing strategies have been and continue to be focused on this particular sales category, as this provides our franchisees and corporate locations with stable and recurring cash flows.

| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| Scheduled service sales (USD) | **$1,605,598** | $1,400,106 | 15% | **$4,611,589** | $4,052,851 | 14% |
| Mix of total system sales | **48%** | 56% | | **48%** | 58% | |

Unscheduled sales:

Unscheduled sales are defined as the revenue generated from customers who have one-time or seasonal requirements for document destruction. An example of unscheduled sales is when an accounting firm is required to destroy an abundance of confidential working papers and documents after their tax season. Unscheduled sales during the first three quarters of 2010 grew by 21% over the previous year due in part to an improving economy and due in part to increasing awareness of legislation mandating that confidential documents be destroyed on a regular annual cycle.

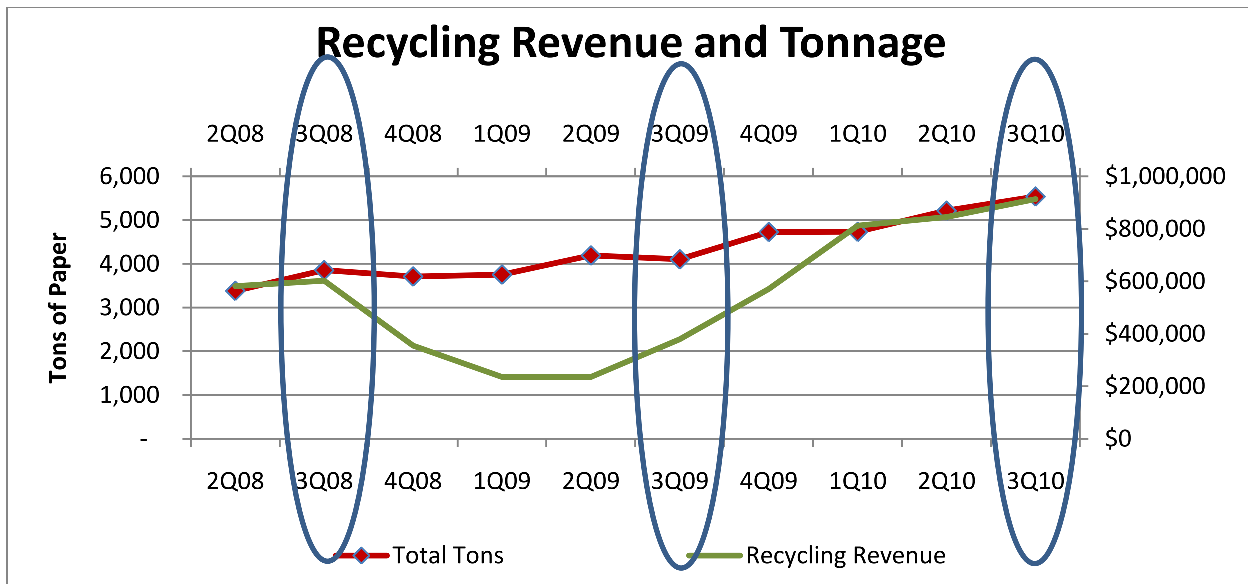
| | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| Unscheduled service sales (USD) | **$ 852,305** | $ 737,909 | 16% | **$ 2,499,896** | $2,073,515 | 21% |
| Mix of total system sales | **25%** | 29% | | **26%** | 30% | |

Recycling sales:

Recycling sales are defined as the revenue generated from the shredded paper and other material that is sold to various recycling companies. This sales category is driven by global supply and demand for shredded paper. During the last quarter of 2009 and during the first nine months of 2010, prices for recycled paper products have rebounded to near record highs.

| | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| Recycling sales (USD) | **$ 913,232** | $ 378,854 | 141% | **$2,570,354** | $ 850,260 | 202% |
| Mix of total system sales | **27%** | 15% | | **27%** | 12% | |

The system as a whole has continued to shred and recycle increased volumes of paper every quarter. In the 1st nine months of 2010, the system shredded and recycled 15,480 tonnes of paper, which equates to 232,000 trees being saved.




Same stores sales for the analysis above has not been broken out as only one new location was opened in 2009, and their sales will not have a material impact.

***Operating Expenses***

| | 3 months ended September 30 | | | 9 months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Salaries | **222,096** | 248,856 | (11)% | **690,419** | 830,512 | (17)% |
| General, administrative and marketing | **211,016** | 199,199 | 6% | **517,910** | 857,440 | (40)% |
| Franchise broker fees | **25,675** | - | 100% | **25,675** | - | 100% |
| | **458,787** | 448,055 | 2% | **1,234,004** | 1,687,952 | (27)% |

Operating expenses for the nine months ended September 30, 2010 include expenses to support 17 Proshred locations in operation, training and initial support for pending locations and the costs to develop new markets by way of franchising and acquisition. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. In 2009 the Company initiated a cost reduction plan, aimed at reducing all overhead costs at the head office in Mississauga. This program has shown a 17% reduction in compensation costs and a 37% decrease in general, administrative and marketing costs for the first nine months of 2010 versus the same period in 2009. Additionally, during the first nine months of 2009, the Company incurred $279,000 in one-time charges related to costs associated with aborted acquisitions and severance packages. During the three months ended September 30, 2010, the Company incurred a broker fee related to awarding the San Diego, CA franchise.

***Corporate Store Operations***

On April 30, 2010, the Company purchased the Syracuse, New York franchise and on June 30, 2010 the Company purchased the Albany, New York franchise. These locations represent the Company's first corporate locations. The following outlines the results for the corporate locations in US dollars.

| ***(in USD's)*** | *3 months ended September 30* | | *5 months ended September 30* | |
|---|---|---|---|---|
| | **2010** **$** | % of revenue | **2010** **$** | % of revenue |
| Revenue: | | | | |
| Shredding service | **237,658** | 76% | **314,478** | 77% |
| Recycling | **75,192** | 24% | **96,092** | 23% |
| Total revenue | **312,850** | 100% | **410,570** | 100% |
| Corporate location costs: | | | | |
| Operating costs | **168,562** | 54% | **228,328** | 56% |
| Depreciation | **54,078** | 17% | **67,936** | 17% |
| Interest expense | **30,183** | 10% | **39,129** | 10% |
| Total corporate store costs | **252,823** | 81% | **335,393** | 82% |
| Corporate store income | **60,027** | 19% | **75,177** | 18% |

***Operating loss***

The Company posted an operating loss during the nine months ended September 30, 2010, as the Company has not attained a breakeven level of royalty revenue. The Company awarded one new franchise in San Diego, CA and the Denver franchise was re-sold. The corporate locations contributed an operating income of $62,139 during the quarter and $77,925 since the acquisitions of Syracuse and Albany, New York on April 30, 2010 and June 30, 2010, respectively.

| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Operating income (loss) | **(50,844)** | (117,629) | (57)% | **(333,170)** | (931,892) | (64)% |

***Foreign currency***

Foreign currency gain (loss) was as follows:

| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Foreign currency gain (loss) | **40,658** | (30,640) | (233)% | **42,864** | (24,842) | (273)% |

All of Redishred's revenues are denominated in US Dollars; this dependency on US dollar revenues causes foreign exchange gains when the Canadian Dollar depreciates versus the US Dollar or when the Company incurs significant U.S. dollar costs. During the third quarter of 2010, the Company incurred increased US dollar costs as a result of the newly acquired Albany, NY location.

***Interest income and expense***

Interest income is derived from cash savings accounts held by the Company and by way of finance income related to the financing of franchise fees. Interest expense is attributed to use of the Company's line of credit facility, which bears interest at 10% per annum. All interest costs have been attributed to the corporate locations to date.

| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Interest income | **1,044** | 1,702 | (39)% | **3,588** | 10,656 | (66)% |
| Interest expense | **(31,361)** | - | -% | **(40,559)** | - | -% |

### *Depreciation and Amortization*

Depreciation and amortization for the nine months ended September 30, 2010 can be broken into two main classes, (1) related to the purchase of PSC and the Proshred franchise business in 2008 and (2) the assets purchased in relation to the Syracuse, New York and Albany, New York corporate locations. Depreciation and amortization are as follows:

| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Depreciation and amortization – Proshred franchise business | **176,359** | 165,915 | 6% | **534,406** | 560,468 | (5)% |
| Depreciation and amortization – Corporate location | **56,171** | - | 100% | **70,419** | - | 100% |

### *Income Tax*

On March 17, 2008 the Company booked a future tax liability relating to the purchase of PSC and PFC. During the nine months ended September 30, 2010, the Company booked a tax recovery of $60,626. The recovery is primarily due to the reversal of timing differences related to the future tax liability that was recorded upon the acquisition of PSC. The Company is not currently taxable.

### *Net Loss*

| | *3 months ended September 30* | | | *9 months ended September 30* | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | %Ch | **2010** | 2009 | %Ch |
| | **$** | $ | | **$** | $ | |
| Net loss | **143,657** | 315,990 | (55)% | **750,132** | 1,465,357 | (49)% |

### *Summary of Quarterly Results*

| (in CDN except where noted) | 2010 | | | 2009 | | | | 2008 |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| | | $ | $ | $ | $ | $ | $ | $ |
| System sales *(USD)* | 3,371,135 | 3,202,222 | 3,108,481 | 2,685,433 | 2,516,869 | 2,275,612 | 2,184,145 | 2,182,756 |
| Franchise and license fees | 109,164 | - | - | - | 118,131 | - | 21,752 | 20,716 |
| Royalty and service fees | 236,639 | 235,092 | 242,013 | 216,205 | 208,857 | 200,175 | 203,707 | 196,838 |
| Total revenue | 345,803 | 235,092 | 242,013 | 216,205 | 326,988 | 200,175 | 225,459 | 217,554 |
| Total operating expenses | (458,787) | (417,574) | (357,642) | (473,713) | (448,055) | (722,646) | (517,250) | (857,172) |
| Corporate locations revenue | 324,892 | 100,685 | - | - | - | - | - | - |
| Corporate locations costs | (262,752) | (75,700) | - | - | - | - | - | - |
| Income from corporate locations | 62,140 | 24,985 | - | - | - | - | - | - |
| Operating income (loss) | (50,844) | (166,695) | (115,629) | (257,507) | (121,067) | (522,471) | (291,792) | (668,455) |
| Interest expense | (31,478) | (9,198) | - | - | - | - | - | - |
| Loss before income tax | (175,135) | (313,979) | (321,643) | (651,498) | (312,482) | (772,876) | (421,187) | (1,021,458) |
| Net income (loss) | (143,657) | (300,831) | (305,643) | (534,248) | (319,428) | (751,641) | (397,726) | (897,251) |
| Basic and diluted operating income (loss) per share | (.005) | (.01) | (.01) | (.01) | (.01) | (.02) | (.01) | (.03) |
| Basic and diluted net income (loss) per share | (.005) | (.01) | (.02) | (.03) | (.01) | (.03) | (.02) | (.04) |

*2010*

In the third quarter, system sales were higher than the second quarter of 2010, setting another quarterly record. System sales have seen upward momentum since the second quarter of 2009, due to continued growth in service related system sales, and due to very strong growth in recycling related system sales. The Company also operated both corporate locations for a full quarter, resulting in increased income from this business segment. The Company in 2010 has continued to minimize operating overheads, resulting in a 27% reduction in costs versus the first three quarters of 2009.

*2009 and 2008*

System sales for the last half of 2008 and the first half of 2009 were impacted by a large decrease in recycling related system sales. From the peak in the third quarter of 2008 to the trough in the second quarter of 2009, recycling revenue fell by 61%, despite the fact that the system as a whole recycled 9% more paper when comparing peak to trough.

For the majority of 2009, the Canadian dollar continued to strengthen versus the US dollar, resulting in tempered growth in royalty revenues reported.

During the first half of 2009, the Company postponed its fund raising and acquisition programs due to the volatile and declining capital markets. As a result, the Company incurred a number of one-time costs related to the expensing of acquisition deposits, financing costs and the elimination of some personnel. These costs equated to $279,000.

***Balance Sheet***

| | **September 30, 2010** | December 31, 2009 |
|---|---|---|
| Working capital | **$ 966,483** | $ 1,119,960 |
| Total assets | **6,667,852** | 6,279,555 |
| Total liabilities | **2,117,993** | 986,021 |

The Company has a line of credit facility of $4 million, of which $1.24 million has been used to date.

The Company issued no dividends during the year.

**Financial Condition / Capital Resources**

As of September 30, 2010, the Company has working capital of $966,483.

The Company monitors its cash balances and cash flows generated from operations to meet its requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due over the next twelve months. The Company has used $1.24 million of its $4 million line of credit facility; these funds were used to acquire the Syracuse, New York franchise, the Albany, New York franchise, two shredding trucks and initial working capital for the acquired businesses. The accounts payable and accrued liabilities of $344,037 at September 30, 2010 (September 30, 2009 - $284,389) are due to be settled within one year from the balance sheet date.

It is management's plan to continue its core business strategy of conducting accretive acquisitions and to continue franchising in the United States and to award licences internationally. The Company estimates that it will be necessary to conduct between two and four acquisitions and to award between two and four new franchise locations over the next 24 months in order to achieve a breakeven level of cash flows. The Company intends to use its $4 million line of credit facility to finance acquisitions. One-time franchise fees from new franchises have historically generated between $35,000 and $100,000 per franchise location. Additionally, new franchise locations add to recurring royalty and fee revenues.

The Company has the following lease commitments:

| | |
|---|---|
| Current | $ 147,433 |
| One to four years | $ 295,645 |
| Total | $ 443,079 |

**Off-Balance Sheet Financing Arrangements**

The Company has no off-balance sheet financing arrangements.

## Significant Accounting Policies

Please refer to the 2009 Audited Financial Statements and to the third quarter, 2010 financial statements for a listing of all accounting policies. The following outlines future changes in accounting policies which may have an impact on the Company's future disclosures.

*Recent accounting pronouncements issued and not yet adopted*

Business Combinations

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial statements, and Section 1602, Non-controlling Interests, which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011.

Early adoption of this section is permitted. All three sections must be adopted concurrently. The Company has decided to adopt all three sections for the fiscal year beginning on January 1, 2011 with comparative 2010 figures. Upon adoption of section 1582 which is equivalent to IFRS 3 *Business Combinations,* the Company will have to implement the following policy changes. The Company will be required to value the cost of its business combinations at fair value at the acquisition date of assets transferred, liabilities (including contingent liabilities) incurred and equity instruments issued by the acquirer. The Company will also need to expense all acquisition related costs and measure any shares issued as consideration at fair value at the acquisition date. The Company is also not permitted to use 'push down accounting.' Furthermore, First-time Adoption of IFRS ("IFRS 1") provides an exemption that allows a Company to adopt the option of no retrospective application to past business combinations at the date of transition. The Company has assessed the impact of this exemption and has decided to elect to apply this first time adoption exemption. IFRS 3 *Business Combinations* will therefore be implemented for the Company's business combinations entered into during 2010.

International financial reporting standards (IFRS)

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the changeover date for Canadian publicly traded enterprises to start using International Financial Reporting standards (“IFRS”) as issued by the International Accounting Standards Board. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

The Company has identified the following major differences between its current accounting policies and those required or expected to apply in preparing IFRS financial statements.

*Revenue Recognition*

Current accounting policy:

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

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

Expected IFRS accounting policy:

No significant changes have been identified from the Company’s current accounting policy.

*Income Taxes*

Current accounting policy:

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantially enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in future income tax rates are included in income tax recovery (expense) in the period that the substantive enactment or enactment occurs. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

Expected IFRS accounting policy:

One of the main differences between IFRS and Canadian GAAP on initial recognition is in the treatment of a permanent difference. If the transaction is not a business combination, and it does not affect accounting and taxable profit, IAS 12 *Income Taxes* ("IAS 12") does not permit recognition of the resulting deferred tax liability or asset, either on initial recognition or subsequently. In contrast HB 3465.43 requires the cost of future income taxes to be recognized at the time of acquisition and added or deducted to or from the cost of the asset. The Company will adjust its opening balances for any outstanding permanent differences as of January 1, 2010 and adopt this revised accounting policy on transition to IFRS. In addition, IAS 12 recognizes a deferred tax asset if it is "probable" that sufficient future taxable profit will be available to recover the asset whereas Section 3465 uses "more likely than not" criterion. The Company has assessed the application of this difference as well as all of the remaining aspects of IAS 12 and does not expect any impacts on the recognition and measurements of income tax and future income tax assets and liabilities. The adoption of IFRS will however have an impact on the Company's tax accounting in the period of adoption and in subsequent periods for new temporary differences arising on the conversion to IFRS.

In regards to presentation and disclosure, IAS 12 uses the terms current tax and deferred tax in place of the Section 3465 terms of current income taxes and future income taxes. Also, IAS 12 does not permit deferred tax assets and liabilities to be classified as current assets or current liabilities but rather classified as non-current. The Company will also be required to present separately the provision for current and future income taxes. Additional disclosures will be made in compliance with the standard, which includes a basis on which the applicable tax rate is computed.

*Impairment of Long-Lived Assets*

Current accounting policy:

Long-lived assets, including equipment and other intangible assets are reviewed for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses are recognized when the carrying value of the asset is greater than the future undiscounted cash flows expected to be provided by the asset. The amount of impairment loss, if any, which is the excess of net carrying value over fair value, is charged to income for the period.

Expected IFRS accounting policy:

Impairment testing of long-term assets is based on a two-step approach under current Canadian GAAP, while it is based on comparing the carrying amount to the recoverable amount under IAS 36 *Impairment of Assets* ("IAS 36"). In addition, IAS 36 requires, under certain circumstances, the reversal of impairment losses, which is not allowed under current Canadian GAAP. Assets are tested for impairment at the Cash-Generating Unit level which is the lowest level of assets that generate cash inflows independent of other assets. A review for impairment indicators and reverse impairment indicators is required at each reporting date. If there is an indication of impairment or reverse impairment, the recoverable amount is estimated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Unlike under Canadian GAAP, the value in use is calculated based on discounted cash flows which will trigger an impairment earlier under IFRS. The Company will adopt this revised accounting policy on transition to IFRS and adjust its opening balance sheet for impairment losses in compliance with IAS 36.

*Equipment and amortization*

Current accounting policy:

Equipment is carried at cost. Amortization is provided for over the estimated useful lives, using the straight-line basis at the following annual rates:

| | |
|---|---|
| Computer equipment | 2 years |
| Computer software | 3 years |
| Furniture and fixtures | 3 years |
| Bins and shredding containers | 5 years |
| Shredding vehicles - chassis | 5 years |
| Shredding vehicles – shredding compartment | 5 years |
| Recycling equipment | 5 years |

Expected IFRS accounting policy:

Componentization: IAS 16 *Property, plant and equipment* ("IAS 16") reinforces the requirement under Canadian GAAP that requires that each part of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item should be depreciated separately. The Company has commenced recording all new capital asset expenditures in compliance with IAS 16.

IAS 16 also requires a Company to review all assets with zero net book values on an annual basis to determine whether the assets are still in use, at which point an applicable useful life is assigned. In addition, useful lives, amortization methods and residual values must be reviewed annually. IAS 16 also dictates that directly attributable costs including salaries and benefits related to bringing an asset up to use intended by management are capitalized with the cost of that asset. The Company will adopt these revised accounting policies on transition to IFRS. Further, the Company does not anticipate any changes to its 2010 opening balance sheet as a result of IAS 16.

*Foreign exchange*

Current accounting policy:

The Company's subsidiaries operate autonomously as self-sustaining companies. The functional currency of the Company's foreign subsidiaries, Proshred Franchising Corp. and RediShred Acquisition Inc., is the US dollar. Assets and liabilities of these subsidiaries are translated into Canadian dollars at exchange rates at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Cumulative translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

Expected IFRS accounting policy:

First-time Adoption of IFRS ("IFRS 1") provides an exemption that allows a Company to reset its cumulative translation account to zero at the date of transition, with the balance being transferred to opening retained earnings. The Company has assessed the impact of this exemption and has decided to elect to apply this first time adoption exemption. This will result in a reclassification between Accumulated Other Comprehensive Income and retained earnings and will not affect reported total equity. IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires that each individual entity included in those statements to determine its own functional currency and measure its own results and financial position in that currency. This explicit requirement applies whether the individual entity is a stand-alone entity, an entity with foreign operations (e.g. a parent company) or is actually the foreign operation (e.g. a subsidiary or branch). IFRS refers to functional currency as the currency of the primary economic environment in which the entity operates. IFRS does not classify the foreign operation into integrated or self-sustaining foreign operations. The Company must determine its own functional currency and measure its own results and financial position in that currency. The Company does not expect any material impacts of IAS 21 at the transition date and thereafter.

*Stock based compensation*

Current accounting policy:

The Company accounts for stock options issued under its stock option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period. Option pricing models require the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Expected IFRS accounting policy:

The Company is currently expected to be in compliance with IFRS 2 *Share Based Compensation* with respect to the accounting for stock based compensation with the exception of the following differences that will impact the compensation expense. The Company is required to treat each tranche within an award as a separate award and calculate compensation expense for each tranche over its own distinct vesting period. The Company will also need to estimate a forfeiture rate into the calculation of periodic compensation expense.

First-time Adoption of IFRS ("IFRS 1") also provides an exemption that allows companies to retain the expense recognized under Canadian GAAP for those exempt awards (after November 7, 2002 that have or will vest before the Transition Date) in its opening IFRS statement of financial position. The Company has assessed the impact of this exemption and has decided to elect to apply this first time adoption exemption. The Company will also be required to include additional disclosures that meet the requirements of IFRS 2.

*Intangible assets*

Current accounting policy:

Intangible assets are recorded at their fair value at the date of acquisition of the related subsidiary. Amortization is provided for intangible assets with limited lives on a straight-line basis over their estimated useful lives of ten years, with the exception of non-compete agreements which are amortized over five years.

Expected IFRS accounting policy:

IAS 38 Intangible assets ("IAS 38) dictates that a Company review all classes of assets and determine if such classifications and useful lives are currently applicable and relevant. The Company has reviewed its intangible assets and determined that there are no changes to be made at the transition date. The Company will however reclassify computer software to intangible assets as required. The Company will adopt the IAS 38 requirements of annually reviewing the assets' amortization periods, methods, and useful lives, as well as tracking and capitalizing directly attributable costs to bring intangible assets up to use intended by management.

*Loss per share*

Current accounting policy:

Basic loss per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is calculated based on the weighted average number of common shares outstanding during the period, plus the effect of dilutive common share equivalents such as options and warrants. The diluted loss per share amounts are calculated using the treasury stock method, as if all the common share equivalents where average market prices exceeds issue price and had been exercised at the beginning of the reporting period, or the period of issue, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period. Since the Company has losses, the exercise of outstanding stock options has not been included in the calculation of diluted loss per share as it would be anti-dilutive.

Expected IFRS accounting policy:

The Company is currently expected to be in compliance with IAS 33 *Earnings per share* ("IAS 33") with respect to calculating basic earnings per share. In calculating the diluted earnings per share, the Company will be required to calculate the number of dilutive potential ordinary shares independently for each period presented rather than a weighted average included in each interim computation as dictated by Canadian GAAP. The Company will also disclose additional information not currently required including the amounts used as the numerators and denominators of basic and diluted loss per share.

*Financial Instruments*

Current accounting policy:

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Expected IFRS accounting policy:

The Company is currently in compliance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). However, IFRS has re-named held-for-trading financial instruments as 'fair value through profit or loss' (FVTPL). The Company is also expected to be in compliance with IFRS 7 *Financial Instruments: Disclosures* at the transition date. IAS 32 *Financial Instruments: Disclosure and Presentation* requires more extensive disclosures about exposures to liquidity, currency and other price risks. The Company will need to prepare a sensitivity analysis for each type of market risk to which it is exposed to at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. Other related additional disclosures will be required as well.

*Summary of the IFRS changeover plan*

The plan addresses the impact of IFRS on Accounting policies and implementation decisions, Infrastructure, Business activities and Control activities. A summary status of the key elements of the changeover plan is as follows:

| | Key Activities | Status |
|---|---|---|
| Accounting policies and implementation decisions | Identification of differences in Canadian GAAP and IFRS accounting policies;<br><br>Selection of the Company's ongoing IFRS policies;<br><br>Selection of the Company's IFRS 1 First-time Adoption of IFRS choices;<br><br>Development of financial statement format;<br><br>Quantification of effects of change in initial IFRS 1 disclosures and 2010 financial statements. | The Company has identified differences between accounting policies under Canadian GAAP and accounting policy choices under IFRS, both on an ongoing basis and with respect to certain choices available on conversion, made in accordance with IFRS 1;<br><br>The Company has selected its IFRS policies and IFRS 1 First-time Adoption of IFRS choices.<br><br>The Company will continue to progress towards the quantification of the identified differences and choices throughout 2010. |
| Infrastructure: Financial reporting expertise | Development of IFRS expertise. | The Company has and will continue to provide training for key employees until the full adoption of IFRS in 2011. |
| Infrastructure: Information technology and data systems | Identify and addresses IFRS differences that require changes to financial systems;<br><br>Identify and address additional data capture and reporting requirements to financial systems;<br><br>Evaluate and select methods to address the need for dual record keeping during 2010 (IFRS and Canadian GAAP), for 2010 IFRS comparatives, and 2011 budget and planning purposes. | The Company has identified system requirements, and has upgraded current financial systems.<br><br>The Company has commenced data capture and will complete this task by the fourth quarter of 2010.<br><br>The Company has determined the method of dual record keeping and its system is capable of processing IFRS. |

| | Key Activities | Status |
|---|---|---|
| Business activities: Financial covenants | Identification of impact on financial covenants and business practices;<br><br>Completion of any required renegotiations/changes by the third quarter of 2010. | The Company has analyzed the contractual implications of IFRS on any financing relationships and has determined that there are no required renegotiations and changes to be implemented. |
| Business activities: Compensation arrangements | Identification of impact on compensation arrangements;<br><br>Assessment of required changes by the third quarter of 2010. | The Company has analyzed all compensation policies that rely on indicators derived from the financial statements and has determined that there are no required changes to be implemented. |
| Control activities: Internal control over financial reporting | For all accounting policy changes identified, assessment of Internal Controls over Financial Reporting ("ICFR") design and effectiveness implications;<br><br>Implementation of appropriate changes by the second quarter of 2010. | The Company has assessed ICFR design and effectiveness implications and is in the process of updating its policies & procedures to be IFRS compliant. |
| Control activities: Disclosure control and procedures | For all accounting policy changes identified, assessment of Disclosure Controls and Procedure ("DC&P") design and effectiveness implications;<br><br>Implementation of appropriate changes by the second quarter of 2010. | The Company has assessed the DC&P design and effectiveness implications and is in the process of implementing the appropriate changes. |

## Transactions with Related Parties

Mr. Mark MacMillan, a director of the Company, is the owner of the Tampa Bay, FL Proshred franchise. Included in accounts and notes receivable at September 30, 2010, is $9,542 (December 31, 2009 - $13,657) due from Mr. MacMillan's franchise. During the nine months ended September 30, 2010, the Company earned royalty and service fees amounting to $57,248 (September 30, 2009 - $50,918).

Included in general, administrative and marketing expense for the nine months ended September 30, 2010 are insurance premiums amounting to $12,000 (September 30, 2009 - $12,000) paid to Alfred J. Bell & Grant Ltd, a Company owned by Mr. Phillip Gaunce, a director of the Company.

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

## Risks and Uncertainties

Please refer to the 2009 Management Discussion and Analysis for a listing of all risks and uncertainties. There have been no material changes relating to the Company's risks and uncertainties since December 31, 2009, the Company's fiscal year end.

## Investor Relations Activities

The Company does not have any investor relations arrangements.

## Share Data

The Company's authorized share capital is unlimited common shares without par value. As at September 30, 2010, there were 28,884,658 issued and outstanding common shares. As at September 30, 2010 there were 1,682,500 options to acquire common shares and 4,000,000 warrants to acquire common shares. As of November 25, 2010 there are 28,884,658 issued and outstanding common shares, 1,682,500 options to acquire common shares and 4,000,000 warrants to acquire common shares.

### Contingencies

On June 18, 2010, three franchisees that operate Proshred Franchises filed a complaint with the United States District Court, Southern District of New York, which management of the Company strongly disagrees with. 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 the Company's subsidiary Proshred Franchising Corp. ("PFC"), (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. These franchisees are located in Florida, North Carolina and Wisconsin. On July 13, 2010, one additional franchisee located in New York State joined the aforementioned complaint.

The Company intends to vigorously defend against this claim. The Company (including its subsidiary PFC) 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 fraudulently misrepresented any franchisees, (3) has not negligently misrepresented 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.

### Subsequent Event

On November 1, 2010 the Company entered into an agreement with Averda International FZ-LLC ("Averda") to operate the "Proshred" and "Redishred" business platform in 15 countries and four territories throughout the Middle East. Accordingly, the initial fee of $250,000 will be recognized in the fourth quarter of 2010 and a 1.25% ongoing fee on gross revenues generated in the Middle East will be recognized monthly as earned. The Company anticipates that Averda will commence shredding operations in early 2011.

Dated: November 25, 2010