RediShred Capital Corp.

Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

November 21, 2011

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited financial statements for the period ended September 30, 2011.

RediShred Capital Corp.

Unaudited Consolidated Statements of Financial Position
As at September 30, 2011 and December 31, 2010

(expressed in Canadian dollars)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash	$ 356,699	$ 988,592
Accounts receivable	630,658	414,910
Prepaid expenses	85,972	44,854
Notes receivable from franchisees (note 7)	27,370	33,178
	1,100,699	1,481,534
Non-current Assets		
Notes receivable from franchisees (note 7)	72,199	108,705
Equipment (note 8)	611,517	661,311
Intangible assets (note 10)	1,617,164	1,781,865
Goodwill (note 11)	1,150,402	1,120,167
Deferred financing charges (note 9)	71,781	88,345
Total Assets	$ 4,623,762	$ 5,241,927
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	660,019	513,559
Deferred revenue	63,247	-
Notes payable	-	127,883
	723,266	641,442
Non-current Liabilities		
Long-term debt (note 13)	2,790,000	2,790,000
Deferred tax liability	61,106	95,000
Total Liabilities	3,574,372	3,526,442
Total Equity	1,049,390	1,715,485
Total Liabilities and Equity	$ 4,623,762	$ 5,241,927

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

RediShred Capital Corp.

Unaudited Consolidated Statements of Comprehensive Loss

For the three and nine months ended September 30, 2011 and 2010

(expressed in Canadian dollars)

	For the 3 months ended September 30		*For the 9 months ended September 30*	
	2011	**2010**	**2011**	**2010**
Revenue	$ 757,315	$ 670,695	$ 2,295,785	$ 1,248,485
Corporate operating expenses (note 5)	(360,300)	(242,151)	(1,127,167)	(330,514)
Selling, general and administrative expenses (note 6)	(640,164)	(479,589)	(1,851,396)	(1,401,582)
Loss before interest and taxation	(243,149)	(51,045)	(682,778)	(483,611)
Interest expense	(70,322)	(31,361)	(208,675)	(40,559)
Interest income	866	1,044	2,359	3,588
Loss before taxation	(312,605)	(81,362)	(889,094)	(520,582)
Recovery of income taxes	2,659	21,356	8,659	33,356
Net loss for the period	$ (309,946)	$ (60,006)	$ (880,435)	$ (487,226)
Other comprehensive loss, net of tax				
Foreign currency translation gain (loss)	82,490	(39,075)	197,673	(43,589)
Comprehensive loss for the period	(227,456)	(99,081)	(682,762)	(530,815)
Net loss per share - Basic and diluted	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.02)
Weighted average number of common shares outstanding	28,884,658	28,884,658	28,884,658	28,884,658

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

RediShred Capital Corp.

Unaudited Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Capital stock (note 13)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance - January 1, 2010	**$ 8,585,808**	**$ 238,938**	**$ -**	**$ (6,203,230)**	**$ 2,621,516**
Net loss	-	-	-	(487,226)	**(487,226)**
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(43,589)	-	**(43,589)**
Stock-based compensation	-	28,805	-	-	**28,805**
Balance - September 30, 2010	**8,585,808**	**267,743**	**(43,589)**	**(6,690,455)**	**2,119,506**
Net loss	-	-	-	(403,389)	**(403,389)**
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(30,729)	-	**(30,729)**
Stock-based compensation	-	30,097	-	-	**30,097**
Balance - December 31, 2010	**8,585,808**	**297,839**	**(74,318)**	**(7,093,844)**	**1,715,485**
Net loss	-	-		(880,435)	**(880,435)**
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	197,673	-	**197,673**
Stock-based compensation	-	16,667	-	-	**16,667**
Balance - September 30, 2011	**$ 8,585,808**	**$ 314,506**	**$ 123,355**	**$ (7,974,280)**	**$ 1,049,390**

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

RediShred Capital Corp.

Unaudited Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2011 and 2010

(expressed in Canadian dollars)

	For the 3 months ended September 30		For the 9 months ended September 30	
	2011	2010	2011	2010
Cash provided by (used in)				
Operating activities				
Loss before income tax	$ (312,605)	$ (81,362)	$ (889,094)	$ (520,582)
Adjustments not affecting cash				
Depreciation and amortization	86,570	135,078	315,981	312,469
Unrealized foreign currency loss (gain)	(150,881)	(74,757)	58,256	(76,624)
Stock-based compensation	510	2,313	16,667	28,805
Impairment of notes receivable	14,672	15,548	43,979	15,548
Interest income	(866)	(1,044)	(2,359)	(3,588)
Interest expense	70,322	31,361	208,675	40,559
Interest received	1,732	1,003	2,370	3,179
Interest paid	-	-	(129,953)	-
Income taxes paid	(11,964)	3,367	(66,738)	7,197
	(302,510)	31,507	(442,216)	(193,037)
Net change in non-cash working capital balances related to operations				
Decrease (increase) in accounts receivable	(67,599)	(86,083)	(215,748)	8,314
Decrease (increase) in prepaid expenses and deferred charges	(52,382)	(9,403)	(41,118)	(17,725)
Increase (decrease) in accounts payable and accrued liabilities	285,272	32,177	146,460	4,016
Increase (decrease) in notes payable	(125,084)	-	(127,883)	-
Increase (decrease) in deposits	35,000	-	63,247	-
	(227,303)	(31,802)	(617,258)	(198,432)
Financing activities				
Increase in credit facility	-	-	-	1,240,000
Investing Activities				
Increase in notes receivable from franchisees	-	(25,735)	(27,809)	(25,735)
Collection of notes receivable from franchisees	20,040	6,265	42,315	19,566
Cash paid on acquisition of assets	-	(3,237)	-	(758,602)
Purchase of capital assets	(5,954)	(227,047)	(29,141)	(446,586)
	14,086	(249,754)	(14,635)	(1,211,357)
Effect of foreign exchange rate changes on cash	25,557	18,240	(1,921)	7,621
Net change in cash for the period	(238,774)	(299,796)	(629,972)	(177,410)
Cash - Beginning of period	569,916	1,197,803	988,592	1,086,036
Cash - End of period	$ 356,699	$ 916,247	$ 356,699	$ 916,247

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

(expressed in Canadian dollars)

1 Corporate information

RediShred Capital Corp. ("Redishred" or "Company") manages and operates the Proshred brand and business platform ("system") in the United States and internationally (with the exception of Canada). Redishred operates the Proshred system under three business models, (1) franchising in the United States, (2) via direct ownership of shredding trucks and facilities in three locations in the United States and, (3) licensing internationally. Redishred is incorporated under the Canada Business Corporations Act and domiciled in Canada. Redishred's common shares are listed for trading on the TSX Venture Exchange under the symbol "KUT". The registered address of the company is 6790 Century Avenue, Suite 200, Mississauga, Ontario, L5N 2V8.

These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at September 30, 2011. Together, Redishred and its subsidiaries are referred to as "the Company."

The consolidated financial statements of the Company for the period ended September 30, 2011 were authorized for issue in accordance with a resolution of the Directors on November 18, 2011.

2 Basis of Presentation

2.1 Statement of compliance

The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's third IFRS consolidated interim financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its consolidated annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set out in Part V of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The IFRS standards and IFRIC interpretations that will be applicable at December 31, 2011, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared for the year ending December 31, 2011, and could result in the restatement of these interim consolidated financial statements should the IFRS standards change between the date of preparation of the financial statements and December 31, 2011.

(expressed in Canadian dollars)

2 Basis of Presentation (continued)

2.1 Statement of compliance (continued)

The accounting policies have been consistently applied to all the periods presented, as if these policies had always been in effect. These unaudited interim consolidated financial statements should be read in conjunction with the 2010 Canadian GAAP annual consolidated financial statements and the unaudited interim consolidated financial statements for the three months ended March 31, 2011.

In preparing the Company's 2011 consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods applied in the Canadian GAAP financial statements to comply with IFRS. In preparing these interim consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS. The comparative financial information has been restated to reflect these adjustments. Note 4 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the comprehensive loss for the three and nine months ended September 30, 2010. In addition, equity is reconciled for September 30, 2010.

As these are the Company's third set of consolidated interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present its accounting policies in accordance with IFRS, the additional disclosures required under IFRS and those that are material in understanding these interim consolidated financial statements, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In future years', the Company may not provide the same amount of disclosure in the interim consolidated financial statements, as the annual financial statements for the year ended December 31, 2011 will already be prepared under IFRS.

The Company's financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. The Company's transition date to IFRS was January 1, 2010 ("Transition date"). The Company prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is for the quarter ended September 30, 2011. The Company's IFRS adoption date is January 1, 2011 ("Adoption date").

2.2 Basis of presentation

These unaudited consolidated interim financial statements were prepared on a going concern basis, on the historical cost basis. The comparatives presented in these consolidated interim financial statements are in accordance with IFRS and have not been audited. The unaudited consolidated interim financial statements are presented in Canadian dollars, which is Redishred's presentation currency.

(expressed in Canadian dollars)

2 Basis of Presentation (continued)

2.3 Basis of consolidation

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

The Company's subsidiaries include:

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

3 Future accounting policy changes

IFRS 9 – Financial Instruments

The International Accounting Standards Board has issued IFRS 9, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Company continues to assess the impact of IFRS 9 on its consolidated statement of income and financial position. In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company continues to assess the impact that the new and amended standards will have on its financial statements. The following is a brief summary of the new standards:

IFRS 10 – Consolidation

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

(expressed in Canadian dollars)

3 Future accounting policy changes (continued)

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

4 Transition to IFRS

The Company's unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34.

The IFRS standards and IFRIC interpretations that will be applicable at December 31, 2011, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. Accordingly, the December 31, 2010 comparative statement of financial position presented in the consolidated financial statements for the year ending December 31, 2011 may differ from those presented at this time. Should this be the case, Redishred will disclose the changes to the opening statement of financial position and comparative statement of financial position in subsequent quarters or in the December 31, 2011 annual financial statements.

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive loss for prior periods. The following is the reconciliation of the company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS for September 30, 2010:

	Notes	As at September 30, 2010
Total equity under Canadian GAAP		**$ 4,549,859**
Impairment of assets	A	(3,150,000)
Depreciation	B	292,357
Deferred taxes	C	450,713
Business combinations	D	(23,423)
Total adjustments to equity		(2,430,353)
Total equity under IFRS		**$ 2,119,506**

The following is the reconciliation of the Company's comprehensive loss reported in accordance with Canadian GAAP to its comprehensive loss in accordance with IFRS for the three and nine months ended September 30, 2010:

	Notes	For the three months ended September 30, 2010	For the nine months ended September 30, 2010
Comprehensive loss as reported under Canadian GAAP		**$ (182,732)**	**$ (793,721)**
Depreciation	B	97,452	292,357
Deferred taxes	C	(10,122)	(27,270)
Business combinations	D	(10,760)	(23,423)
Share-based payments	E	7,081	21,242
Total adjustments to comprehensive loss		83,651	262,906
Comprehensive loss as reported under IFRS		**$ (99,081)**	**$ (530,815)**

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

Notes to the reconciliations

A) Impairment of assets

Under Canadian GAAP, impairment testing of long-lived assets is based on a two-step approach, in which an asset group's carrying value is compared to the group's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset group is impaired by an amount equal to the difference between the fair value and the carrying value. Under IAS 36 *Impairment of Assets* ("IAS 36") the impairment test is based on a one-step approach, in which a review of impairment indicators is performed and if there is such an indication of impairment, an assets carrying value is compared to its recoverable amount, which is estimated as the higher of the asset's or cash generation units ("CGUs") fair value less costs to sell and its value-in-use. The fair value less costs to sell and the value-in-use is calculated based on discounted cash flows. If the recoverable amount is less than the carrying value, the asset or CGU is impaired by an amount equal to the difference between the recoverable amount and the carrying value. Furthermore, IAS 36 allows for the reversal of impairment losses if an indication of the reversal of impairment losses warrants such a reversal.

The Company assessed its impairment indicators at January 1, 2010 and December 31, 2010 and determined that there was an indication of impairment to warrant an impairment analysis to be performed. As a result of the impairment review, the recoverable amount of certain CGUs was less than their carrying amounts and the Company recorded an impairment loss of $3,150,000 at January 1, 2010. The impairment loss was allocated to reduce the carrying value of the assets on a pro rata basis based on the carrying amount of each asset in each respective CGU. As a result of the impairment loss recorded at January 1, 2010, the asset's amortization amounts for fiscal 2010 were impacted and reduced accordingly, to reflect the lower carrying value.

B) Depreciation

The adjustments to the depreciation are a result of the impairment loss recognized at January 1, 2010.

C) Deferred tax liability

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

D) Business combinations

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

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

Notes to the reconciliations (continued)

E) Share-based payments

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

F) Adjustments to the Statements of Cash Flows

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

5 Corporate operating expenses

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

	For the three months ended		**For the nine months ended**	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
	$	$	**$**	$
Shredding expenses	**85,238**	49,998	**262,760**	72,293
Employee wages and benefit expense	**161,177**	97,690	**477,917**	127,081
Office and administration expense	**42,137**	38,292	**172,693**	60,720
Depreciation & amortization – tangible assets	**32,507**	27,432	**96,265**	37,098
Depreciation & amortization – intangible assets	**39,241**	28,739	**117,532**	33,322
Total corporate operating expenses	**360,300**	242,151	**1,127,167**	330,514

For the period ended September 30, 2010, the Company operated two corporate locations, which began operations on May 1, 2010 and July 1, 2010.

(expressed in Canadian dollars)

6 Selling, general and administrative expenses

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

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
	$	$	**$**	$
Employee wages and benefit expense	**200,887**	215,016	**629,869**	669,177
Professional fees	**377,799**	85,203	**598,133**	173,806
Corporate administration	**138,919**	96,643	**393,962**	300,941
Selling & Development	**7,835**	44,478	**62,764**	58,472
Depreciation & amortization – tangible assets	**-**	229	**5,553**	11,858
Depreciation & amortization – intangible assets	**14,821**	78,678	**96,698**	230,192
Foreign exchange (gain)/loss	**(100,097)**	(40,658)	**64,417**	(42,864)
Total selling, general and administrative expenses	**640,164**	479,589	**1,851,396**	1,401,582

7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees, are guaranteed by the respective owners of the franchises, bear interest rates ranging from 5.25% to 6.25% per annum with monthly blended payments of principal and interest ranging from US$526 to US$1,797, commenced between dates ranging from November 1, 2009 to April 1, 2011 and mature between dates ranging from October 1, 2011 to September 1, 2013. The amounts receivable as at December 31, 2010 and September 30, 2011 are as follows:

	September 30, 2011 $	**December 31, 2010 $**
Principal	200,627	194,670
Less: Allowance for impairment	101,058	52,787
Less: Current portion	27,370	33,178
	72,199	108,705

(expressed in Canadian dollars)

7 Notes receivable from franchisees (continued)

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

Notes receivable from franchisees past due but not impaired comprise:

	Up to 30 days $	Up to 60 days $	60 days or more $	Total $
At September 30, 2011	3,081	3,054	38,615	44,750
At December 31, 2010	2,759	2,736	48,002	53,497

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

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

	For the nine months ended September 30, 2011 $	For the year ended December 31, 2010 $
Opening balance	**52,787**	43,333
Additions	**48,271**	9,454
Unused and reversed	**–**	–
Utilized	**–**	–
Closing balance	**101,058**	52,787

(expressed in Canadian dollars)

8 Equipment

Cost	Computer Equipment	Furniture & Fixtures	Bins & Shredding containers	Shredding vehicles-chassis	Shredding vehicles – box	Baling Equipment	Vehicles	Total
	$	$	$	$	$	$	$	**$**
As at January 1, 2010	70,011	29,707	-	**-**	-	-	-	**99,718**
Additions	6,608	-	11,145	139,259	305,710	-	-	**462,722**
Acquisitions	6,500	5,500	19,750	74,000	159,000	6,356	-	**271,106**
Foreign exchange	-	-	(42)	(320)	(697)	-	-	**(1,059)**
As at December 31, 2010	83,119	35,207	30,853	212,939	464,013	6,356	-	**832,487**
Additions	702	-	19,728	2,691	-	-	6,700	**29,821**
Foreign exchange	416	331	1,693	7,360	15,847	205	218	**26,070**
As at September 30, 2011	**84,237**	**35,538**	**52,274**	**222,990**	**479,860**	**6,561**	**6,918**	**888,378**

Accumulated Depreciation	Computer Equipment	Furniture & Fixtures	Bins & Shredding containers	Shredding vehicles-chassis	Shredding vehicles - box	Baling Equipment	Vehicles	Total
	$	$	$	$	$	$	$	**$**
As at January 1, 2010	66,989	21,823	-	-	-	-	-	**88,812**
Depreciation	6,056	8,588	2,449	19,039	44,739	1,589	-	**82,460**
Foreign exchange	-	-	-	(29)	(67)	-	-	**(96)**
As at December 31, 2010	73,045	30,411	2,449	19,010	44,672	1,589	-	**171,176**
Depreciation	4,265	1,375	5,865	27,984	56,606	2,383	1,675	**100,153**
Foreign exchange	121	72	149	1,761	3,246	129	54	**5,532**
As at September 30, 2011	**77,431**	**31,858**	**8,463**	**48,755**	**104,524**	**4,101**	**1,729**	**276,861**
Net book value								
As at December 31, 2010	**10,074**	**4,796**	**28,404**	**193,929**	**419,341**	**4,767**	**-**	**661,311**
As at September 30, 2011	**6,806**	**3,680**	**43,811**	**174,235**	**375,336**	**2,460**	**5,189**	**611,517**

The Company purchased bins, shredding containers and a vehicle during the nine months ended September 30, 2011. The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar to Canadian dollar at December 31, 2010 and September 30, 2011.

(expressed in Canadian dollars)

9 Deferred financing charges

Effective November 27, 2009, the Company arranged a $4 million revolving line of credit facility with a five-year term (see note 13). Costs associated with this facility of $110,431, including warrants issued (see note 12 (e)), are being charged to expenses over the five year term of the facility.

10 Intangible assets

Cost	Franchise agreements	Proshred system	Computer software	Trademarks and intellectual property	Reacquired franchise rights	Customer lists	Total
	$	$	$	$	$	$	**$**
As at January 1, 2010	1,205,592	428,196	316,244	732,273	-	-	**2,682,305**
Additions	-	-	-	-	-	-	**-**
Acquisitions	-	-	-	-	530,000	275,000	**805,000**
Foreign exchange	(124,872)	-	-	-	(795)	(412)	**(126,079)**
As at December 31, 2010	1,080,720	428,196	316,244	732,273	529,205	274,588	**3,361,226**
Additions	-	-	-	-	-	-	**-**
Foreign exchange	35,718	-	-	-	18,072	9,378	**63,168**
As at September 30, 2011	**1,116,438**	**428,196**	**316,244**	**732,273**	**547,277**	**283,965**	**3,424,394**

Accumulated Depreciation	Franchise agreements	Proshred system	Computer software	Trademarks and intellectual property	Reacquired franchise rights	Customer lists	Total
	$	$	$	$	$	$	$
As at January 1, 2010	528,694	179,300	263,600	306,631	-	-	**1,278,225**
Depreciation	124,504	42,820	52,644	73,221	28,571	4,746	**326,505**
Foreign exchange	(25,270)	-	-	-	(244)	145	**(25,369)**
As at December 31, 2010	627,928	222,120	316,244	379,852	28,327	4,891	**1,579,361**
Depreciation	31,790	21,410	-	36,630	99,643	20,619	**210,092**
Foreign exchange	12,622	-	-	-	4,215	940	**17,777**
As at September 30, 2011	**672,340**	**243,530**	**316,244**	**416,482**	**132,185**	**26,450**	**1,807,230**
Net book value							
As at December 31, 2010	**452,792**	**206,076**	**-**	**352,421**	**500,878**	**269,697**	**1,781,865**
As at September 30, 2011	**444,098**	**184,666**	**-**	**315,791**	**415,092**	**257,516**	**1,617,164**

As a result of the acquisition of the Syracuse, Albany, and Milwaukee locations, customer relationships and re-acquired franchise rights were identified intangibles in the business combination in 2010.

The Company's franchise agreements, customer lists and re-acquired franchise rights are denominated in US dollars and are subject to foreign currency fluctuations.

(expressed in Canadian dollars)

11 Goodwill

The following table presents goodwill for the year ended December 31, 2010 and the nine months ended September 30, 2011:

	For the nine months ended September 30, 2011	For the year ended December 31, 2010
	$	$
Opening balance	**1,120,167**	–
Acquisitions	**–**	1,113,539
Foreign currency translation	**30,235**	6,628
Closing balance	**1,150,402**	1,120,167

12 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, 2011 and December 31, 2010, there were no changes in issued common shares of the Company. Furthermore, there have been no changes in issued common shares since the year ended December 31, 2009. The following are the balances of issued common shares of the Company:

	Common stock		Warrants		
	Number	**$**	**Number**	**$**	**Total $**
Balance, September 30, 2011, December 31, 2010	28,884,658	8,297,602	4,000,000	288,206	8,585,808

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the quarter ended September 30, 2011, was 28,884,658 (December 31, 2010 - 28,884,658).

(expressed in Canadian dollars)

12 Capital stock (continued)

d) Stock options

At September 30, 2011, the Company has 1,837,500 options outstanding (December 31, 2010 – 1,592,500) and a weighted average exercise price of $0.24 (December 31, 2010 – $0.27). There have been 145,000 options granted during the nine months ended September 30, 2011 (September 30, 2010 – 350,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $16,667 (September 30, 2010 - $28,805).

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 relates 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. The fair value of these warrants has been recorded as deferred finance 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.

13 Long-term debt

	September 30, 2011 $	December 31, 2010 $
Line of credit	2,790,000	2,790,000

The line of credit was entered into on November 27, 2009 for a maximum amount of $4 million, repayable on November 27, 2014, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets. Deferred financing charges in respect of this facility will be charged to expense over the term of the facility (see note 9). Refer to subsequent event note 20 for further details.

(expressed in Canadian dollars)

14 Commitments and contingency

Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2013. Additionally, the Company leases facilities in Albany, which expires on March 31, 2013, Syracuse, which expires on August 31, 2015 and Milwaukee, which expires on May 31, 2013. Certain contracts include renewal options for various periods of time. For the nine months ended September 30, 2011, the Company recognized $68,750 (September 30, 2010 - $55,127) in lease payments as an expense included in general, administrative and marketing and corporate operating expenses.

Future minimum lease payments for the Company are as follows:

	$
Year ending December 31, 2011	45,700
2012	178,819
2013	107,948
2014	11,950
2015	4,979

Contingency

On June 18, 2010, three franchisees filed a complaint with the United States District Court, South District of New York, which management of the Company believes is without merit. The complaint has listed the following causes of action, (1) breach of contract and breach of the implied covenant of good faith and fair dealing by PFC, (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. These franchisees are located in Florida, North Carolina and Wisconsin. On July 13, 2010, one additional franchisee located in New York State joined the aforementioned complaint. On December 31, 2010, in conjunction with the purchase of the Proshred Wisconsin business by the Company, the Wisconsin franchisee permanently withdrew from the legal complaint.

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

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

(expressed in Canadian dollars)

15 Financial risk management

The Company has various financial assets that consist of: cash, accounts receivable and notes receivable from franchisees. The Company's financial liabilities include accounts payable, 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, liquidity risk and currency 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 earns interest at prevailing and fluctuating market rates. The fixed rate notes receivable from franchisees are subject to interest rate pricing risk, as the value will fluctuate as a result of changes in market rates.

The Company has a line of credit facility that has a fixed interest rate of 10% per annum; the Company has no other interest bearing debt.

Credit risk

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

Receivables from franchisees

The accounts receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments were conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of September 30, 2011, 6 franchisees accounted for 82% of the accounts receivable balance (December 31, 2010 – 6 franchises accounted for 61%). For the nine months ended September 30, 2011, 3 franchisees accounted for 28% of the Company's revenues (December 31, 2010 – 3 franchisees accounted for 32%). As of September 30, 2011, 78% of accounts receivable was over 90 days old and related to two franchises (December 31, 2010 – 26% of accounts receivable was over 90 days old and related to one franchise).

(expressed in Canadian dollars)

15 Financial risk management (continued)

Credit risk (continued)

The following is a reconciliation of the allowance for credit losses from accounts receivable from franchisees:

	For the nine months ended September 30, 2011 $	For the year ended December 31, 2010 $
Opening balance	**40,762**	–
Additions	**–**	40,823
Unused and reversed	**–**	–
Utilized	**–**	–
Foreign exchange	**1,392**	(61)
Closing balance	**42,154**	40,762

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, 2011, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2011, no customer accounted for more than 10% of the Company's revenues in this category. As of September 30, 2011, 7% of accounts receivable in this category was over 90 days old. The Company has not recorded an allowance for credit losses from accounts receivable from shredding customers as the Company does not have any reason to believe it will not collect all outstanding balances.

Currency risk

The Company incurs revenue primarily in US currency and both expenses in US and Canadian currency and as such, is subject to fluctuations as a result of foreign exchange rate variation. 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 $1USD = $0.9773CAD (2010- $1USD = $1.03655CAD). Assets and liabilities have been translated using the exchange rate at the date of the statement of financial position of $1USD = $1.0326CAD (2010- $1USD = $1.0294CAD).

(expressed in Canadian dollars)

15 Financial risk management (continued)

Currency risk (continued)

The following financial instruments denominated in US funds have been translated at September 30, 2011, at an exchange rate of 1.0326 (December 31, 2010 - 0.9985):

	September 30, 2011 $	December 31, 2010 $
Cash	260,434	463,591
Accounts receivable	455,823	214,494
Prepaid expenses	74,400	32,304
Notes receivable from franchisees	194,293	142,096
Accounts payable and accrued liabilities	(467,474)	(285,345)

Unrealized foreign exchange fluctuations are recorded in accumulated other comprehensive income (loss) and are only recorded in net income once realized on liquidation of the subsidiary.

At September 30, 2011, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the US dollar would have resulted in approximately $47,800 (decrease) increase in the income before taxes for the year.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. 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 while maintaining compliance with all financial covenants. The accounts payable, accrued liabilities and notes payable of $723,266 at September 30, 2011 (December 31, 2010 - $641,442), are due to be settled within one year from the balance sheet date.

At September 30, 2011, the Company has cash of $356,699 and working capital of $377,433. The Company also has access to a $4 million line of credit, of which $2.79 million has been utilized as of September 30, 2011. The remaining $1.21 million is to be used for acquisitions as well as general corporate purposes. The line of credit is repayable on November 27, 2014 and interest payments are due semi-annually.

On October 31, 2011, the line of credit was increased to $5.3 million repayable on November 27, 2014; all other terms of the agreement remained unchanged. The unutilized portion of the line of credit on October 31, 2011 was $2.5M.

(expressed in Canadian dollars)

15 Financial risk management (continued)

Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities and notes payable approximate their value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees (note 7), are made as at a specific point in time based on estimates using present value or other valuation techniques.

These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at September 30, 2011, amounted to $99,569 (December 31, 2010 - $133,187) with fair value estimated to amount to $124,246 (December 31, 2010 - $121,008), respectively.

Carrying value of financial instruments

	September 30, 2011 $	December 31, 2010 $
Financial assets designated at fair value through profit or loss	-	-
Loans and receivables measured at amortized cost	1,086,926	1,555,385
Financial liabilities measured at amortized cost	(3,513,266)	(3,403,130)

16 Capital management

The Company defines capital as shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains a conservative capital ratio in order 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.

17 Segmented information

As of April 30, 2010, 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).

(expressed in Canadian dollars)

17 Segmented information (continued)

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

	Franchising and licensing		Corporate locations		Total	
	September 30, 2011 $	December 31, 2010 $	**September 30, 2011 $**	December 31, 2010 $	**September 30, 2011 $**	December 31, 2010 $
ASSETS						
Current assets						
Cash	**217,976**	824,269	**138,723**	164,323	**356,699**	988,592
Accounts receivable	**374,386**	282,064	**256,272**	132,846	**630,658**	414,910
Prepaid expenses	**55,376**	12,598	**30,596**	32,256	**85,972**	44,854
Notes receivable from franchisees	**27,370**	33,178	**-**	-	**27,370**	33,178
Total current assets	**675,108**	1,152,109	**425,591**	329,425	**1,100,699**	1,481,534
Non-current assets						
Notes receivable from franchisees	**72,199**	108,705	**-**	-	**72,199**	108,705
Equipment	**2,922**	5,399	**608,595**	655,912	**611,517**	661,311
Deferred financing charges	**71,781**	88,345	**-**	-	**71,781**	88,345
Intangible assets	**944,560**	1,011,290	**672,604**	770,575	**1,617,164**	1,781,865
Goodwill	**-**	-	**1,150,402**	1,120,167	**1,150,402**	1,120,167
Total assets	**1,766,575**	2,365,848	**2,857,192**	2,876,079	**4,623,762**	5,241,927
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	**600,991**	413,062	**59,028**	100,497	**600,019**	513,559
Deferred Revenue	**63,247**	-	**-**	-	**63,247**	-
Notes payable	**-**	-	**-**	127,883	**-**	127,883
Total current liabilities	**664,238**	413,062	**59,028**	228,380	**723,266**	641,442
Non-current liabilities						
Long-term debt	**-**	-	**2,790,000**	2,790,000	**2,790,000**	2,790,000
Deferred tax liability	**61,106**	95,000	**-**	-	**61,106**	95,000
Total liabilities	**725,344**	508,062	**2,849,028**	3,018,380	**3,574,372**	3,526,442

The Company incurred $29,141 in capital expenditures relating to its' corporate operations during the nine months ended September 30, 2011 (December 31, 2010- $468,941). The Company did not have any capital expenditures related to its franchising operations for the nine months ended September 30, 2011 (December 31, 2010- $6,608).

(expressed in Canadian dollars)

17 Segmented information (continued)

Geographic information is as follows:

	September 30, 2011 $	December 31, 2010 $
Canada		
Equipment	**2,922**	5,399
Deferred financing charges	**71,781**	88,345
Intangible assets	**500,458**	558,491
United States		
Notes receivable from franchisees	**99,569**	141,883
Equipment	**608,595**	655,912
Intangible assets	**1,116,706**	1,223,374
Goodwill	**1,150,402**	1,120,167

Revenue

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

Total net loss by reportable operating segment is as follows:

	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 currency loss, net	–	–	100,097	**100,097**
Interest expense	–	(70,322)	–	**(70,322)**
Interest income	866	–	–	**866**
Recovery of income taxes	2,659	–	–	**2,659**
Net income (loss)	(363,807)	48,045	5,817	**(309,946)**

(expressed in Canadian dollars)

17 Segmented information (continued)

	For the three months ended September 30, 2010			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	345,803	324,892	–	**670,695**
Direct costs	–	(185,980)	–	**(185,980)**
Corporate overhead	(274,282)	(46,810)	(120,248)	**(441,340)**
Depreciation and amortization	(78,907)	(56,171)	–	**(135,078)**
Foreign currency gain (loss), net	–	–	40,658	**40,658**
Interest expense	–	(31,361)	–	**(31,361)**
Interest income	1,044	–	–	**1,044**
Recovery of income taxes	21,356	–	–	**21,356**
Net income (loss)	15,014	4,570	(79,590)	**(60,006)**

For the period ending September 30, 2010, the Company operated two corporate locations. The operating results included are from May 1, 2010 to September 30, 2010. All revenues are received in US dollars.

	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 currency loss, net	–	–	(64,417)	**(64,417)**
Interest expense	–	(208,675)	–	**(208,675)**
Interest income	2,359	–	–	**2,359**
Recovery of income taxes	8,659	–	–	**8,659**
Net income (loss)	(559,390)	51,262	(372,306)	**(880,435)**

(expressed in Canadian dollars)

17 Segmented information (continued)

	For the nine months ended September 30, 2010			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	822,908	425,577	–	**1,248,485**
Direct costs	–	(260,093)	–	**(260,093)**
Corporate overhead	(861,140)	(61,058)	(280,201)	**(1,202,399)**
Depreciation and amortization	(242,049)	(70,419)	–	**(312,468)**
Foreign currency loss, net	–	–	42,864	**42,864**
Interest expense	–	(40,559)	–	**(40,559)**
Interest income	3,588	–	–	**3,588**
Recovery of income taxes	33,356	–	–	**33,356**
Net income (loss)	(243,337)	(6,552)	(237,335)	**(487,226)**

18 Related party transactions

A Director of the Company is the owner of the Tampa, Florida Proshred franchise. Included in accounts and notes receivable at September 30, 2011, is $3,199 (September 30, 2010 - $9,542) due from the Director's franchise. During the nine months ended September 30, 2011, the Company earned royalty and service fee amounts of $63,892 (September 30, 2010 - $57,248) from the Director's franchise.

Included in general, administrative and marketing expenses for the nine months ended September 30, 2011 are insurance premium amounts of $12,450 (September 30, 2010 - $12,000) paid to an insurance brokerage firm owned by a Director of the Company.

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

19 Compensation of Key Management Personnel

Key management personnel compensation is as follows:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
	$	$	**$**	$
Base wages and benefits	**147,993**	134,354	**449,920**	458,854
Share-based payments	**3,687**	5,894	**22,956**	38,289
Total	**151,680**	140,248	**472,876**	497,143

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

(expressed in Canadian dollars)

20 Subsequent Events

On October 5, 2011, the Company announced that it had entered into agreements with two new franchisees to operate the Proshred shredding businesses in Phoenix, Arizona and Atlanta, Georgia. Accordingly, the franchise fee associated with these new franchises will be recognized in the fourth quarter of 2011. The Company expects its new franchisees to commence operations in early 2012.

On October 26, 2011, the Company announced that it had entered into an agreement with a new franchisee to operate a Proshred shredding business in Dallas, Texas. The franchise fee associated with this new franchise will be recognized in the fourth quarter of 2011. The Company expects its new franchise to commence operations in early 2012.

On October 31, 2011, the line of credit was increased to $5.3 million repayable on November 27, 2014; all other terms of the agreement remained unchanged.