REDISHRED CAPITAL CORP.

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

November 25, 2010

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, 2010.

RediShred Capital Corp.

Unaudited Consolidated Balance Sheets

As at September 30, 2010 and December 31, 2009

	September 30, 2010	December 31, 2009
Assets (note 8)		
Current Assets		
Cash	$ 916,247	$ 1,086,036
Accounts receivable	313,274	321,588
Prepaid expenses and deferred charges	34,575	16,850
Notes receivable from franchisees (note 4)	35,893	24,445
Income taxes recoverable	10,531	11,062
	1,310,520	1,459,981
Notes receivable from franchisees (note 4)	115,988	139,781
Equipment (note 5)	582,730	204,998
Intangible assets (note 7)	4,552,177	4,364,364
Deferred financing charges (note 6)	106,437	110,431
	6,667,852	6,279,555
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	344,037	340,021
Line of credit (note 8)	1,240,000	-
Future income tax liability	533,956	646,000
	2,117,993	986,021
Shareholders' Equity		
Capital Stock (note 9)	8,585,808	8,585,808
Contributed surplus	258,437	208,391
Accumulated other comprehensive income	98,032	141,621
Deficit	(4,392,418)	(3,642,286)
	4,549,859	5,293,534
	$ 6,667,852	$ 6,279,555

Commitments and contingency (note 10)

RediShred Capital Corp.

Unaudited Consolidated Statements of Operations

	For the 3 months ended September 30		*For the 9 months ended September 30*	
	2010	**2009**	**2010**	**2009**
Revenue from franchising				
Franchise/licence fees	$ 109,164	$ 118,131	$ 109,164	$ 143,321
Royalty and service fees	236,639	208,857	713,744	612,739
	345,803	326,988	822,908	756,060
Operating expenses				
Salaries	(222,096)	(248,856)	(690,419)	(830,512)
General, administrative and marketing	(211,016)	(199,199)	(517,910)	(857,440)
Franchising broker fees	(25,675)	-	(25,675)	-
	(458,787)	(448,055)	(1,234,004)	(1,687,952)
Corporate operations				
Service and recycling revenue	324,892	-	425,577	-
Corporate store costs	(175,220)	-	(236,673)	-
Corporate store depreciation and amortization	(56,171)	-	(70,419)	-
Interest expense	(31,361)	-	(40,559)	-
Income from corporate stores	62,140	-	77,926	-
Operating loss before the following	(50,844)	(121,067)	(333,170)	(931,892)
Depreciation and amortization	(176,359)	(165,915)	(534,406)	(560,468)
Unrealized foreign currency gain (loss)	40,658	(30,640)	42,864	(24,842)
Gain on retirement of note payable	10,366	-	10,366	
Interest income	1,044	1,702	3,588	10,656
Loss before income tax	(175,135)	(315,920)	(810,758)	(1,506,546)
Income tax recovery (expense)	31,478	(3,508)	60,626	41,189
Net loss for the period	$ (143,657)	$ (319,428)	$ (750,132)	$ (1,465,357)
Loss per share - Basic and diluted	$ (0.005)	$ (0.01)	$ (0.03)	$ (0.06)
Weighted average number of common shares outstanding	28,884,658	22,884,614	28,884,658	22,884,614

RediShred Capital Corp.

Unaudited Consolidated Statements of Shareholders' Equity and Comprehensive Loss

	Capital stock $ (note 8)	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total shareholders' equity $
Balance - December 31, 2008	7,650,565	189,400	503,873	(1,639,243)	6,704,595
Net loss	-	-	-	(1,465,356)	(1,465,356)
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(299,566)	-	(299,566)
Comprehensive loss	-	-	-	-	(1,764,922)
Stock-based compensation	-	15,696	-	-	15,696
Balance - September 30, 2009	7,650,565	205,096	204,307	(3,104,599)	4,955,369
Net loss	-	-	-	(537,687)	(537,687)
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(62,686)	-	(62,686)
Comprehensive loss	-	-	-	-	(600,373)
Issuance of shares and warrants (net of costs)	935,243	-	-	-	935,243
Stock-based compensation	-	3,295	-	-	3,295
Balance - December 31, 2009	**8,585,808**	**208,391**	**141,621**	**(3,642,286)**	**5,293,534**
Net loss	-	-	-	(750,132)	(750,132)
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(43,589)	-	(43,589)
Comprehensive loss	-	-	-	-	(793,721)
Stock-based compensation	-	50,046	-	-	50,046
Balance - September 30, 2010	**8,585,808**	**258,437**	**98,032**	**(4,392,418)**	**4,549,859**

RediShred Capital Corp.

Unaudited Statements of Cash Flows

	For the 3 months ended September 30		For the 9 months ended September 30	
	2010	2009	2010	2009
Cash provided by (used in)				
Operating activities				
Net loss for the periods	$ (143,657)	(319,428)	$ (750,132)	(1,465,356)
Add Items not affecting cash				
Depreciation and amortization	232,530	165,915	604,825	560,468
Unrealized foreign currency loss (gain)	(40,658)	34,077	(42,864)	24,842
Impairement of notes receivable	15,548	-	15,548	-
Gain on retirement of notes payable	(10,366)	-	(10,366)	-
		-		-
Stock-based compensation	9,393	(2,360)	50,046	15,696
Future income taxes	(31,478)	(64,876)	(60,626)	(160,793)
	31,312	(186,672)	(193,569)	(1,025,143)
Net change in non-cash working capital balances related to operations				
Decrease (increase) in accounts receivable	(86,083)	(158,100)	8,314	(188,504)
Decrease (increase) in prepaid expenses and deferred charges	(9,403)	7,416	(17,725)	52,265
Decrease (increase) in deposits	-	16,823	-	66,707
Increase (decrease) in accounts payable and accrued liabilities	32,177	(103,371)	4,016	(182,249)
Increase (decrease) in taxes payable	195	-	531	-
	(31,802)	(423,904)	(198,433)	(1,276,924)
Financing activities				
Increase in credit facility	-	-	1,240,000	-
Investing Activities				
Increase in notes receivable from franchisees	(25,735)	-	(25,735)	-
Collection of notes receivable from franchisees	6,265	8,531	19,566	9,102
Cash paid on acquisition of assets	(3,237)	-	(758,602)	-
Capital expenditures	(227,047)	-	(446,586)	-
	(249,754)	8,531	(1,211,357)	9,102
Effect of foreign exchange rate changes on cash	18,240	(26,951)	7,621	(96,733)
Net change in cash for the period	(299,796)	(388,422)	(177,410)	(1,171,090)
Cash - Beginning of period	1,197,803	801,154	1,086,036	1,653,604
Cash - End of period	$ 916,247	$ 385,781	$ 916,247	$ 385,781

1 Nature of operations

RediShred Capital Corp. (the "Company") was incorporated under the Canada Business Corporations Act on October 18, 2006. The Company's common shares were listed for trading on the TSX Venture Exchange on September 5, 2007 as a Capital Pool Company. The Company's business until March 17, 2008, was the identification and evaluation of shredding businesses that could qualify as a Qualifying Transaction under TSX Venture Exchange policies. On March 17, 2008, the Company acquired the shares of Professional Shredding Corporation ("PSC"), which directly and indirectly carries on the business of granting and managing shredding business franchises under the "Proshred" trademark. The acquisition served as the Company's "Qualifying Transaction" pursuant to the policies of the TSX Venture Exchange and was approved by the TSX Venture Exchange.

On April 30, 2010, the Company, through its wholly owned subsidiary, Redishred Acquisition Inc. ("RAI") acquired the business of the Proshred Syracuse, New York franchise and on June 30, 2010, the Company acquired the business of the Proshred Albany, New York franchise. The Company has consolidated the Syracuse and Albany management teams and offices, creating a regional head quarters in Syracuse, New York.

As of September 30, 2010, the Company has 17 locations in operation (December 31, 2009 – 17) of which15 are franchised and 2 are corporately operated. On July 26, 2010, the Company awarded the San Diego franchise, which commenced operations in October 2010.

2 Significant accounting policies

Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include accounts of the Company and its wholly owned subsidiaries PSC, RAI and Proshred Franchising Corp. ("PFC"). All transactions between the Company and its subsidiaries have been eliminated.

2 Significant accounting policies (continued)

Recent accounting pronouncements issued and not yet adopted

Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants ("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 will adopt the sections for the fiscal year beginning January 1, 2011.

International financial reporting standards (IFRS)

In February of 2008, the Canadian Accounting Standards Board ratified a strategic plan that will see GAAP converged with, and replaced by, IFRS for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. For the quarter ended March 31, 2011, the Company expects to issue its financial results on an IFRS basis with comparative 2010 data on an IFRS basis. Further, the Company has assessed the level of disclosures required from the adoption of IFRS and has determined that a significant increase in disclosures will be necessary. Based on a review of the systems and processes to address IFRS implementation, the Company has determined that minimal changes will be required to the financial systems.

2 Significant accounting policies (continued)

Use of accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates include, but are not limited to, the following:

- Economic useful life of proprietary software system for purposes of calculating depreciation;
- Valuation of accounts receivable and notes receivable from franchisees;
- Valuation of intangible assets including purchased customer lists; and
- Assumptions used in the measurement of stock-based compensation and the fair value of warrants;
- Valuation of assets acquired in business combinations.

While management applies its judgement based on assumptions believed to be reasonable under the circumstances at the time, actual results could vary from their assumptions or had different assumptions been used. The Company evaluates and updates its assumptions and estimates based on any new events occurring, additional information being obtained or more experience being acquired.

Cash

As at September 30, 2010 and 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

2 Significant accounting policies (continued)

Revenue recognition

Franchising and licensing business

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

Corporate operations – shredding and recycling services

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

Income taxes

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 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 occurs. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

Stock-based compensation

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.

2 Significant accounting policies (continued)

Foreign currency translation

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.

Foreign currency exchange gains or losses, derived from monetary assets and liabilities denominated in currencies other than the functional currency, are translated into the functional currency at the exchange rate in effect at the balance sheet date, with the resulting foreign currency gains or losses included in the determination of the income for the year.

Equipment and amortization

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

Intangible assets

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-competition agreements which are amortized over five years.

Impairment of long-lived assets

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.

2 Significant accounting policies (continued)

Deferred financing charges

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

Loss per share

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.

Financial instruments

i) Financial instruments – recognition and measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. 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.

The Company has implemented the following classifications:

- Cash is classified as “Financial Assets Held-for-Trading”. These financial assets are marked-to market through net income at each period end.

- Accounts receivable and notes receivable from franchisees are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

2 Significant accounting policies (continued)

ii) Financial instruments – disclosures

Section 3862 requires additional disclosure requirements about the fair value measurement for financial instruments and liquidity risk disclosures. These requirements include a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The only financial instrument recorded at fair value is cash, which is valued based on market prices in an active market (Level 1).

iii) Comprehensive income

Under Section 1530, comprehensive income is comprised of net earnings and other comprehensive income (OCI) which generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Accumulated other comprehensive income is presented as a category of shareholders' equity.

3 Acquisition of shredding businesses in New York State

On April 30, 2010, the Company, through its wholly owned subsidiary, Redishred Acquisition Inc., acquired the business of the Proshred Syracuse, New York franchise, which provides shredding and recycling services to the greater Syracuse, New York market. On June 30, 2010, the Company through its wholly owned subsidiary, Redishred Acquisition Inc., acquired the business of the Proshred Albany, New York franchise which provides shredding and recycling services to the greater Albany, New York market. The Company has consolidated the Syracuse and Albany management teams and offices, creating a regional head quarters in Syracuse, New York.

The preliminary allocation of the purchase price to the assets acquired (including all identifiable intangible assets arising from the purchases) based on their estimated fair value at the date of acquisition is as follows:

Assets acquired	$
Set up costs	22,702
Computers	2,574
Furniture	2,574
Consoles	10,037
Shred Box	50,299
Shred Chasis	26,785
Bailing Equipment	6,541
Customer Lists	610,584
Non-compete	10,294
Franchise Agreement	16,213
Total assets acquired	758,603
Consideration given	
Cash	758,603

4 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, 2008 to October 1, 2010 and maturing between dates ranging from October 1, 2011 to March 13, 2013. The amounts are as follows:

	September 30, 2010 $	**December 31, 2009 $**
Principal	209,829	207,559
Less: Allowance for impairment	57,948	43,333
Less: Current portion	35,893	24,445
	115,988	139,781

The Company has recorded an allowance for impairment against a 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. Management was required to use judgment based on assumptions believed to be reasonable in making this estimate. As such, actual losses could differ from the estimate. At September 30, 2010, the gross amount of notes receivable payments 90 days or more past due amounted to $61,207 (December 31, 2009 - $32,628).

The fair value of these notes has been disclosed in note 11.

5 Equipment

	As at September 30, 2010		
	Cost **$**	**Accumulated amortization** **$**	**Net carrying amount** **$**
Computer equipment	83,546	(78,200)	5,346
Furniture and fixtures	50,184	(34,091)	16,093
Computer software	432,534	(371,737)	60,797
Bins and shredding containers	20,381	(1,452)	18,929
Shredding vehicles – chassis	153,647	(9,298)	144,349
Shredding vehicles – shredding compartment	355,873	(24,380)	331,493
Recycling equipment	6,541	(818)	5,723
	1,102,706	(519,976)	582,730

	As at December 31, 2009		
	Cost **$**	**Accumulated amortization** **$**	**Net carrying amount** **$**
Computer equipment	77,266	(66,989)	10,277
Furniture and fixtures	47,610	(21,823)	25,787
Computer software	432,534	(263,600)	168,934
	557,410	(352,412)	204,998

The company acquired equipment to operate its Syracuse and Albany, New York locations, as per note 3. The Company also purchased $3,804 in computer equipment, $10,345 in bins and shredding containers and $432,437 in shredding vehicles during the nine month period ended September 30, 2010.

6 Deferred financing charges

In December 2009, the Company arranged a $4 million revolving line of credit facility with a five-year term. Costs associated with this facility including warrants to be issued (see note 9 (g)), will be expensed over the term of the facility.

7 Intangible assets

	As at September 30, 2010			
	Cost $	Accumulated amortization $	Accumulated write-down $	Net carrying amount $
Franchise agreements	2,845,052	(717,312)	(152,351)	1,975,389
Proshred system	978,000	(252,650)	–	725,350
Trademarks and intellectual property	1,672,500	(432,073)	–	1,240,427
Setup costs	22,702	(1,525)	–	21,177
Customer lists	610,584	(30,334)	–	580,250
Non-competition agreements	10,294	(710)	–	9,584
	6,139,132	(1,434,604)	(152,351)	4,552,177

	As at December 31, 2009			
	Cost $	Accumulated amortization $	Accumulated write-down $	Net carrying amount $
Franchise agreements	2,883,800	(528,694)	(155,311)	2,199,795
Proshred system	978,000	(179,300)	–	798,700
Trademarks and intellectual property	1,672,500	(306,631)	–	1,365,869
	5,534,300	(1,014,625)	(155,311)	4,364,364

The Franchise agreements, Proshred system and Trademarks and intellectual property above were acquired as part of the purchase of PSC on March 17, 2008. The Company had no goodwill or other intangible assets prior to March 17, 2008. The setup costs, customer lists and non-competition agreements above were acquired to operate the Syracuse and Albany, New York locations.

The Company's franchise agreement intangible assets, customer lists and non-competition agreements are denominated in US dollars and are subject to foreign currency fluctuations. The Company's foreign currency translation gains and losses on other intangible assets are a component of accumulated other comprehensive income or loss.

7 Intangible assets (continued)

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. When the undiscounted cash flows of the assets are less than the carrying value of the asset, a write-down is required. One franchisee ceased their operations, materially affecting the value of future cash flows related to that franchise agreement. The Company assessed the intangible assets for impairment and recorded a write-down of intangible assets in 2009.

The analysis did not show any further impairment.

8 Line of credit

The Company has a credit facility with a private investor that can be used to finance the Company's ongoing acquisition program as well as be used for general corporate purposes. As at September 30, 2010 the Company has used $1.24 million of the $4 million facility. The interest rate on the debt is 10% per annum compounded daily, payable semi-annually; this facility expires November 27, 2014. This line of credit is secured by a general security agreement over the Company's assets.

9 Capital stock

a) Authorized

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

b) Issued

The following table outlines the number of common shares and warrants outstanding as at September 30, 2010 and 2009, there were no common shares or warrants issued during either period:

	2010				
	Common Stock		Warrants		
	Number of Shares	Value	Number of Shares	Value	Total Value
Balance, January 1, 2010	28,884,658	$ 8,297,602	4,000,000	$ 288,206	$ 8,585,808
Issued during the first quarter	-	-	-	-	-
Balance, March 31, 2010	28,884,658	$ 8,297,602	4,000,000	$ 288,206	$ 8,585,808
Issued during the second quarter	-	-	-	-	-
Balance, June 30, 2010	28,884,658	$ 8,297,602	4,000,000	$ 288,206	$ 8,585,808
Issued during the third quarter	-	-	-	-	-
Balance, September 30, 2010	28,884,658	$ 8,297,602	4,000,000	$ 288,206	$ 8,585,808

	2009				
	Common Stock		Warrants		
	Number of Shares	Value	Number of Shares	Value	Total Value
Balance, January 1, 2009	22,884,614	$ 7,650,565	-	-	$ 7,650,565
Issued during the first quarter	-	-	-	-	-
Balance, March 31, 2009	22,884,614	$ 7,650,565	-	-	$ 7,650,565
Issued during the second quarter	-	-	-	-	-
Balance, June 30, 2009	22,884,614	$ 7,650,565	-	-	$ 7,650,565
Issued during the third quarter	-	-	-	-	-
Balance, September 30, 2009	22,884,614	$ 7,650,565	-	-	$ 7,650,565

9 Capital stock (continued)

c) Details of share issuances

On March 17, 2008, the Company issued 9,615,383 common shares for cash of $5,000,002. In addition, 3,269,231 common shares valued at $1,700,000 were issued to Professional Shredding Partnership as part consideration for the purchase of PSC. As at September 30, 2010, 490,385 common shares owned by Professional Shredding Partnership were held in escrow. As at September 30, 2010, a total of 1,389,635 common shares were held in escrow and will be released in future periods in accordance with the Escrow Agreement.

On December 23, 2009, the Company issued 6,000,044 common shares for cash of $900,007. Of the 6,000,044 common shares issued, existing directors and officers of the Company purchased 3,000,044 common shares at a price of $0.15 per common share. The Company also granted warrants to acquire 3,000,000 common shares in connection with the issuance (see note 9(g)), but not to any existing directors and officers. On the same day, the Company granted warrants in connection with the line of credit, entitling the lender to acquire 1,000,000 common shares (see note 9(g)).

d) Weighted average common shares

The basic weighted average number of common shares outstanding for the nine months ended September 30, 2010 was 28,884,658 (September 30, 2009 - 22,884,614).

e) Stock options

Under the terms of the stock option plan:

i) From time to time, the Company designates eligible participants to whom options will be granted and the number of shares to be optioned to each;

ii) Eligible participants are persons who are directors, officers, employees and technical consultants of the Company;

iii) Options to purchase shares are non-transferable and are exercisable for a period of up to five years from the date of grant;

iv) Shares to be optioned shall not exceed 2,888,465 (September 30, 2009 – 2,288,462) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

v) The option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Venture Exchange; and

vi) The term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted from time to time by the Toronto Venture Exchange.

The following table summarizes the movements in the Company's stock options during the period ending:

	September 30, 2010		December 31, 2009	
	Number of shares	Weighted average exercise price $	Number of shares	Weighted average exercise price $
Outstanding – beginning of year	1,673,349	0.34	2,050,849	0.33
Granted	350,000	0.14	-	-
Forfeited	(340,849)	0.52	(107,500)	0.52
Expired	-		(270,000)	0.20
Outstanding – end of period	1,682,500	0.27	1,673,349	0.34

e) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		September 30, 2010			December 31, 2009		
Exercise prices $	**Issue date**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**
0.20	Aug 29, 2007	975,000	1.92	975,000	975,000	2.66	975,000
0.52	Mar 17, 2008	352,500	2.46	177,500	352,500	3.21	88,125
0.52	Mar 17, 2008	-	-	-	335,849	0.21	335,849
0.60	May 26, 2008	5,000	2.65	5,000	10,000	3.40	2,500
0.14	May 27, 2010	350,000	3.65	350,000	-	-	-
		1,682,500	2.65	1,507,500	1,673,349	2.29	1,401,474

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

	2010
Expected option life	2.9 years
Risk-free interest rate	2.8%
Expected dividend yield	nil
Expected volatility	50%

350,000 options were granted during the nine months ended September 30, 2010 (2009 – $ nil).

f) Warrants:

The Company issued two tranches of warrants in 2009. The first tranche was issued in connection with the private placement on December 23, 2009 and the second relates to the line of credit obtained on the same date. Details are as follows:

	2010			
	Exercise price $	Number of warrants outstanding or to be issued	Remaining contractual life	Assigned value $
Tranche 1	0.25 to 0.45	3,000,000	4.08 years	204,406
Tranche 2	0.25 to 0.45	1,000,000	4.23 years	83,800

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

Expected warrant life	5 years
Risk-free interest rate	1.06%
Expected dividend yield	nil
Expected volatility	234%

In connection with the line of credit, 1,000,000 warrants were issued on April 28, 2010 when the line of credit was first drawn upon in accordance with the line of credit agreement. These warrants were recorded in the consolidated financial statements in 2009 as performance by the counterparty was complete. The fair value of these warrants have been recorded as deferred finance charges and are being amortized into income over the term of the facility and are also subject to a 2 year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the statement of cash flows.

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

10 Commitments and contingency

Commitments

As of August 1, 2008, the Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2013. Additionally, the Company leases facilities in Albany, New York, which expires on March 31, 2011 and Syracuse, New York, which expires on August 31, 2015. Future minimum lease payments for the Company for the years ending December 31st are as follows:

	$
2010	40,786
2011	142,197
2012	135,214
2013	104,472
2014	12,246
2015	8,164

Contingency

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.

11 Financial risk management

The Company has various financial assets that consist of: cash, accounts receivable and notes receivables. The Company's financial liabilities include accounts payable, accrued liabilities and a line of credit.

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.

11 Financial risk management (continued)

Credit risk

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

Receivables from franchisees:

The accounts receivable are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and all existing franchisees. In addition, the receivable balances with franchisees are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. As of September 30, 2010, three franchisees accounted for 48% of the accounts receivable balance (December 31, 2009 – five franchisees accounted for 66%). For the nine months ended September 30, 2010, three franchisees accounted for 31% of the Company's revenues (September 30, 2009 – 19%). As of September 30, 2010, 23% of accounts receivable was over 90 days old and related to one franchise (December 31, 2009 – 17% of accounts receivable was over 90 days old and related to two franchises).

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 payment 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, 2010, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2010, no customer accounted for more than 10% of the Company's revenues in this category.

As of September 30, 2010, 1% of accounts receivable in this category were over 90 days old.

11 Financial risk management (continued)

Currency risk

The Company incurs revenue in US currency and has expenses in both US and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variation.

The following financial instruments denominated in US funds have been translated at September 30, 2010 at an exchange rate of 1.0294 (December 31, 2009 - 1.0494):

	September 30, 2010 $	December 31, 2009 $
Cash	653,613	239,726
Accounts receivable	265,129	246,253
Notes receivable from franchisees	151,881	156,495
Accounts payable and accrued liabilities	(151,844)	(90,251)

Since the Company's foreign subsidiaries are considered self-sustaining, unrealized foreign exchange fluctuations are recorded in accumulated other comprehensive income (loss) and are only recorded in income once realized on liquidation of the subsidiary.

At September 30, 2010, 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 $66,840 increase (decrease) in comprehensive income for the year.

11 Financial risk management (continued)

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 and accrued liabilities of $344,037 at September 30, 2010 (December 31, 2009 - $340,021) are due to be settled within one year from balance sheet date.

The Company has access to a $4 million line of credit, of which $1.24 million has been utilized, to be used for acquisitions as well as general corporate purposes.

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 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 4), are made as of 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, 2010 amounted to $151,881 (December 31, 2009 - $207,559), with fair value estimated to amount to $133,952 (December 31, 2009 - $130,399).

Carrying value of financial instruments

	September 30, 2010 $	December 31, 2009 $
Held-for-trading	916,247	1,086,036
Loans and receivables	465,155	485,814
Financial liabilities	(1,584,037)	(340,021)

12 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.

13 Segmented information

The Company operates two reportable operating segments, (1) the granting and managing of shredding business franchises and licences under the "Proshred" trademark, and (2) the operation of corporately owned shredding businesses. The Company also incurs costs associated with being a listed company on the Toronto Venture Exchange that are not allocated to the reporting segments.

Assets and liabilities used in the franchise and licensing business:

The franchise and licensing business has the following deployment of assets and liabilities geographically:

	September 30, 2010 $	December 31, 2009 $
Balance sheet items		
Canada		
Cash	262,634	834,467
Accounts receivable	58,676	63,170
Other current assets	14,698	16,850
Equipment	77,981	204,998
Other intangible assets	1,965,777	2,164,569
Accounts payable	(192,193)	(249,770)
United States		
Cash	562,134	251,569
Accounts receivable	128,272	258,418
Notes receivable from franchisees	151,881	164,226
Other intangible assets	1,975,389	2,199,795
Accrued liabilities	(103,723)	(90,251)
Future tax liabilities	(533,956)	-

13 Segmented information (continued)

Assets and liabilities used in corporate operations:

All assets involved in operating corporate locations reside in the United States; the line of credit facility used to fund the acquisitions resides in Canada:

	September 30, 2010 $	December 31, 2009 $
Balance sheet items		
Canada		
Line of credit facility	(1,240,000)	-
United States		
Cash	91,479	-
Accounts receivable	136,857	-
Other current assets	19,877	-
Equipment	504,748	-
Other intangible assets	611,011	-
Accounts payable	(48,121)	-

Segmented statement of operations:

	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	-	(175,220)	-	(175,220)
Corporate overhead	(281,362)	(46,810)	(130,615)	(458,787)
Depreciation and amortization	(176,359)	(56,171)	-	(232,530)
Unrealized foreign currency gain (loss)	-	-	40,658	40,658
Gain on retirement of note payable	-	10,366	-	10,366
Interest expense	-	(31,361)	-	(31,361)
Interest income	1,044	-	-	1,044
Income tax (expense) recovery	31,478	-	-	31,478
Net loss	(79,396)	25,696	(89,957)	(143,657)

13 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	-	(236,673)	-	(236,673)
Corporate overhead	(882,381)	(61,058)	(290,565)	(1,234,004)
Depreciation and amortization	(534,406)	(70,419)	-	(604,825)
Unrealized foreign currency gain (loss)	-	-	42,864	42,864
Gain on retirement of note payable		10,366		10,366
Interest expense	-	(40,559)	-	(40,559)
Interest income	3,588	-	-	3,588
Income tax (expense) recovery	60,626	-	-	60,626
Net loss	(529,665)	27,234	(247,701)	(750,132)

The corporate locations were purchased on April 30, 2010 and June 30, 2010. Corporate overhead represents wages and costs associated with public reporting and unallocated head office items.

14 Related party balances and transactions

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 three 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.

15 Subsequent event

On November 1, 2010 the Company entered into an agreement with Averda International FZ-LLC ("Averda") to operate the "Proshred" or "RediShred" shredding 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. The company anticipates that Averda will commence shredding operations in early 2011.