## Overview of the Structure of the MD&A

The following management's discussion and analysis ("MD&A") for Redishred Capital Corp. (the "Company" or "Redishred") has been prepared by management and focuses on key statistics from the consolidated financial report and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial report for the year ended December 31, 2011 and 2010. Additional information on Redishred, including these documents and the Company's 2011 annual report are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at April 30, 2012.

## Forward Looking Statements

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

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

(i) the Company's ability to achieve certain levels of cash flow, which may be impacted by:
   a. the number of new franchises awarded,
   b. the size of the franchise territories awarded,
   c. the growth of the system sales achieved by existing and new locations,
   d. the economic circumstances in certain regions of the United States,
   e. the number and size of acquisitions,
   f. the growth of sales achieved in corporate locations,
   g. the level of corporate overhead,
   h. the outcome of current litigation,

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

(iii) acquisition activity may be impacted by the identification of appropriate assets and agreement of suitable terms;

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

(v) recycling revenues may be impacted by commodity paper prices which will vary with market conditions; and

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

These forward-looking reports should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking reports will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

## Non-GAAP Measures

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

- System sales are revenues generated by franchisees, licensees and corporately operated locations. The system sales generated by franchisees and licensees drive the Company's royalty and information technology fee revenues. The system sales generated by corporate locations are included in the Company's revenues.

- Same store system sales results are indicators of performance of franchisees, licensee locations and corporately operated locations that have been in the system for equivalent periods in 2011 and 2010.

- Corporate operating income is the income generated by corporately operated locations. The operating income generated is inclusive of depreciation on tangible equipment, primarily tucks and containers; it does not include amortization related to intangibles assets or allocations for corporate overhead.

- Operating income (loss) is defined as revenues less operating costs, interest expense, depreciation and amortization related to the tangible assets. Depreciation and amortization for intangible assets has not been included in this calculation.

## Basis of Presentation

On January 1, 2011, under Canadian GAAP, all public reporting companies in Canada were required to adopt International Financial Reporting Standards ("IFRS") as GAAP. All financial information reported in this MD&A is presented under IFRS excluding 2009 information. Please refer to the section called Adoption of International Financial Reporting Standards on page 20 of this MD&A for a description of the impact of adopting IFRS on the Company. The Company's presentation currency is the Canadian dollar. The functional currency of the Company's foreign subsidiaries is the U.S. dollar, as it is the currency of the primary economic environment in which it operates.

## Overview of Redishred Capital Corp.

Redishred Capital Corp., based in Mississauga, Ontario, Canada operates the Proshred franchising business (defined as the business of granting and managing franchises in the United States and by way of license arrangement in the Middle East) as well as corporate shredding businesses directly. The Company's plan is to grow its business by way of both franchising and the acquisition and operation of document destruction businesses that generate stable and recurring cash flow through a scheduled client base, continuous paper recycling, and concurrent unscheduled shredding service. As of December 31, 2011 there were 22 Proshred locations in the United States comprised of 91.8 territories, and one international license to operate in the Middle East[1]. A territory in the United States is defined as a geographic area with 7,000 businesses having 10 or more employees. A franchise is defined as the right, granted by the Company, to operate a Proshred business in a certain geographic area(s). During the year ended December 31, 2011, the Company announced the addition of the Indianapolis, IN, Atlanta, GA, Phoenix, AZ and Dallas, TX franchises to the system. These franchises comprise 2.6, 6.3, 4.2 and 6.3 territories respectively. The Indianapolis franchise commenced operations in June of 2011 and the Atlanta, Phoenix and Dallas operations are expected to commence in the first quarter of 2012. The Company also operates the Syracuse, Albany and Milwaukee locations directly.

In addition, the Middle East licensee currently has one location in operation in Doha, Qatar. On January 1, 2012, the Company purchased the Proshred New York City business from an existing franchisee and will operate the location directly in 2012.

*[1] Middle East license includes Gulf Cooperation Council countries of Saudi Arabia, Kuwait, Bahrain, Qatar, The United Arab Emirates, the Sultanate of Oman and the Republic of Yemen, in addition to, the Eastern Mediterranean Levant Countries of Turkey, Syria, Lebanon, Palestine, Jordan, Iraq, and Egypt including the islands of Crete, Cyprus, Rhodes, Chios and Lesbos.*

The Company's location list is as follows:

| No. | Franchise locations | Operating since | Territories |
|---|---|---|---|
| 1. | SPRINGFIELD, MA | June 2003 | 2.3 |
| 2. | TAMPA BAY, FL | March 2004 | 2.1 |
| 3. | DENVER, CO | August 2004 | 3.8 |
| 4. | CHARLOTTE, NC | April 2006 | 3.3 |
| 5. | PHILADELPHIA, PA | September 2006 | 5.0 |
| 6. | KANSAS CITY, MO | December 2006 | 4.0 |
| 7. | NEW HAVEN, CT | April 2007 | 3.6 |
| 8. | CHICAGO, IL | April 2007 | 3.8 |
| 9. | RALEIGH, NC | June 2007 | 4.7 |
| 10. | BALTIMORE, MD (includes Washington, DC) | November 2007 | 6.7 |
| 11. | NEW YORK CITY, NY (includes Long Island, NY) | January 2008 (1) | 11.3 |
| 12. | MIAMI, FL | June 2008 | 5.7 |
| 13. | N. VIRGINIA, VA | July 2008 | 3.8 |
| 14. | ORANGE COUNTY, CA | September 2009 | 3.0 |
| 15. | SAN DIEGO, CA | October 2010 | 2.9 |
| 16. | INDIANAPOLIS, IN | June 2011 | 2.6 |
| | | *Franchises in operation* | *68.6* |
| **No.** | **Corporate locations** | **Operating since** | **Territories** |
| 17. | SYRACUSE, NY | March, 2004(2) | 2.5 |
| 18. | ALBANY, NY | April, 2003(2) | 1.2 |
| 19. | MILWAUKEE, WI | August 2003(2) | 2.7 |
| | | *Corporate locations in operation* | *6.4* |
| | | ***Grand Total*** | ***75.0*** |

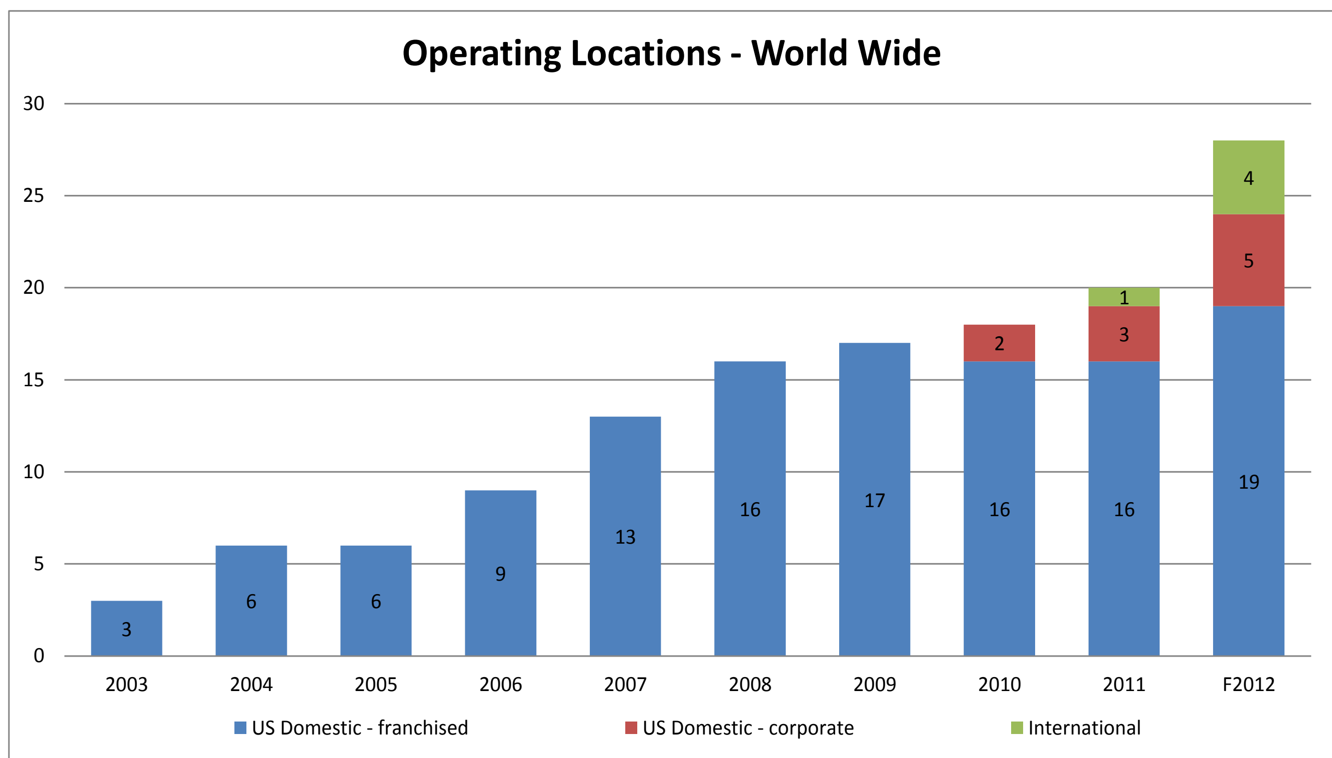
| No. | Pending franchise locations | Expected Operation | Territories |
|---|---|---|---|
| 20. | ATLANTA, GA | January, 2012 | 6.3 |
| 21. | PHOENIX, AZ | January, 2012 | 4.2 |
| 22. | DALLAS, TX | 1st quarter of 2012 | 6.3 |
| | | *Pending* | *16.8* |

| No. | International locations | Operating since | Territories |
|---|---|---|---|
| 1. | DOHA, QATAR | September 2011 | - |

| No. | Pending international locations | Operating since | Territories |
|---|---|---|---|
| 2. | DUBAI, UAE | January, 2012 | - |

*(1) New York City was purchased by the Company on January 1, 2012, to be operated corporately.*
*(2) Syracuse has been corporately operated since May 1, 2010; Albany has been corporately operated since July 1, 2010; Milwaukee has been corporately operated since January 1, 2011.*

## Worldwide locations



## Performance Compared to 2011 Goals and Objectives

In the Company's 2010 Annual Report, management stated its 2011 goals and objectives. A review of the Company's performance in meeting these goals and objectives is included below:

| 2011 Goals and Objectives | Performance to December 31, 2011 | Comments |
|---|---|---|
| Grow system sales from existing locations by 15% to $14.8M USD compared to 2010. | Redishred's system sales from all locations grew by 15% over the year ended December 31, 2010 to a total of $14.9M. Same store system sales grew by 16% for the same period. | **Redishred attained the annual goal.** |
| Establish two new franchise locations. | During 2011, Redishred awarded four new franchise locations. On May 16, 2011, Redishred awarded the Indianapolis, IN franchise. During the 4th quarter of 2011, Redishred awarded the Atlanta, GA, Phoenix, AZ and Dallas, TX franchises. | **Redishred has exceeded the annual goal.** |
| Establish two new corporate locations by way of acquisition or by way of starting new locations. | Redishred had not conducted any acquisitions or initiated any new locations during the year ended December 31, 2011. | **Redishred did not attain the annual goal of establishing two new corporate locations. Subsequent to year-end, on January 1, 2012, the Company completed the acquisition of the New York City business from an existing franchisee. The Company continues to monitor the industry for acquisition opportunities.** |
| Achieve a minimum of $450,000 in EBITDA from existing Corporate locations (Syracuse, Albany and Milwaukee). | Redishred earned $781,652 in EBITDA (and $364,201 in operating income) from its Corporate locations during the year ended December 31, 2011. | **The Company has exceeded the annual goal.** |

## Goals and Objectives for 2012

Management has set new objectives for 2012 as follows:

1. Grow system sales from existing locations by 10% over fiscal 2011 to a total of $16.4 million USD.
2. Award at least two franchise locations.
3. Conduct three acquisitions in 2012.
4. Generate $1 million in earnings before interest, taxes, depreciation and amortization ("EBITDA") from our current corporate locations, Syracuse, Albany, Milwaukee and NYC.

| 2012 Goals and Objectives | Strategy for Achieving Goals |
|---|---|
| Grow system sales from existing locations by 10% to $16.4M USD compared to 2011. | Provide sales support to all franchisees and corporate locations in their sales growth efforts. Sales support will include on-site field visits, lead generation programs and enhanced marketing tools. |
| Award at least four franchise locations. | Continue to invest in franchise development marketing activities and develop stronger relationships with business brokers. |
| Conduct three acquisitions in 2012. | Will actively contact small and medium size independent shredding operators with the view to purchase their operations.<br><br>The Company will specifically target acquisitions in close proximity to existing corporate locations. |
| Achieve a minimum of $1 million in EBITDA from existing Corporate locations (Syracuse, Albany, Milwaukee and New York City). | Management will focus on two key areas that drive profitability, (1) increased sales and marketing activities in the local market and (2) continued focus on route optimization. |

## Overall Performance

### Selected Financial Data and Results of Operations

The following table shows selected financial data for the years ended December 31, 2011, 2010 and 2009.

| ***For the years ended,*** *(in CDN except where noted)* | **December 31, 2011** $ | December 31, 2010 $ | December 31, 2009[3] $ |
|---|---|---|---|
| **Franchise sales and revenue data:** | | | |
| System sales (USD) | **14,936,708** | 12,937,195 | 9,662,060 |
| **Total Revenue** | **3,379,383** | 2,003,763 | 968,827 |
| Franchise and license fees | **433,396** | 355,413 | 139,883 |
| Royalties and service fees | **934,192** | 934,639 | 828,944 |
| **Franchise related revenue** | **1,367,588** | 1,290,052 | 968,827 |
| **Corporate location data:** | | | |
| Corporate location revenue | **2,011,795** | 713,711 | - |
| Corporate location costs[1] | **(1,647,594)** | (635,983) | - |
| **Operating income from corporate locations** | **364,201** | 77,728 | - |
| On-going operating costs | **(1,608,218)** | (1,571,196) | (1,884,664) |
| Broker fees | **(121,612)** | (25,527) | - |
| One-time costs[2] | **(599,355)** | - | (210,000) |
| Bad debt expense | **(103,320)** | (35,811) | (67,000) |
| Depreciation and amortization- equipment | **(3,014)** | (6,520) | (198,681) |
| **Total operating costs** | **(2,435,519)** | (1,639,054) | (2,360,345) |
| **Operating income (loss)** | **(703,730)** | (278,725) | (1,391,518) |
| **Net income (loss)** | **(455,083)** | (274,100)[4] | (2,003,043) |
| **Loss per share** | **(0.02)** | (0.01) [4] | (0.09) |
| **Total assets** | **9,006,024** | 6,631,248[4] | 6,279,555 |
| **Total non-current financial liabilities** | **5,544,805** | 2,790,000 | - |

*(1) Corporate location costs include operating costs, interest expense for the use of the Company's line of credit and depreciation and amortization on tangible assets.*
*(2) One-time costs incurred in 2011 are primarily legal fees related to the defence of the current franchisee litigation against the Company and accounting costs related to the adoption of IFRS. As of January 1, 2012, only two franchisees remained in the litigation.*
*(3) The year-ended December 31, 2009 is not reported under International Financial Reporting Standards.*
*(4) The Company has restated 2010 net loss, loss per share and total assets as the Company reversed a portion of impairment originally incurred at the January 1, 2010 opening balance sheet. Further information can be found on page 21 under "Impact of adoption of IFRS."*

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

***Total Revenues***

Franchising and licensing:

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | % Ch | **2011** | 2010 | %Ch |
| | **$** | $ | | **$** | $ | |
| Franchise and license fees | **371,381** | 246,249 | 51% | **433,396** | 355,413 | 22% |
| Royalty and service fees | **229,033** | 220,895 | 4% | **934,192** | 934,639 | 0% |
| Total franchise and license related revenue | **600,414** | 467,144 | 29% | **1,367,588** | 1,290,052 | 6% |

During the 4th quarter of 2011, the Company entered into three franchise agreements to operate the "Proshred" platform in Atlanta, GA, Phoenix, AZ and Dallas, TX. As a result, the Company earned $371,381 in franchise fees. The Company derives all franchise and license related revenues in US dollars which are translated at the average exchange rate for the period. Royalties and service fees are charged for use of the trademarks and system, franchise and license fee revenue is generated when a franchise or license is awarded

For the three months ended December 31, 2011, royalty and fee revenues were $598,085 USD. For the year ended December 31, 2011, royalty and fee revenues were $1,383,078 USD. Total franchise and license related revenue for the year ended December 31, 2011 remained consistent with the prior year due to the conversion of three franchise locations to corporate locations, which was offset by the increase in system sales. The twelve month average depreciation of the Canadian dollar versus the US Dollar also impacted the total franchise and license related revenue unfavourably.

Corporate Operations:

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010[1] | %Ch | **2011** | 2010[1] | %Ch |
| | **$** | $ | | **$** | $ | |
| Shredding services | **368,038** | 218,401 | 69% | **1,437,817** | 544,373 | 164% |
| Recycling | **115,145** | 69,734 | 65% | **573,978** | 169,338 | 239% |
| Total shredding related revenue | **483,183** | 288,135 | 68% | **2,011,795** | 713,711 | 182% |

[1] *The results for the three and twelve months ended December 31, 2010 include the corporate operations of Syracuse, which began May 1, 2010. Albany has been corporately operated since July 1, 2010; Milwaukee has been corporately operated since January 1, 2011.*

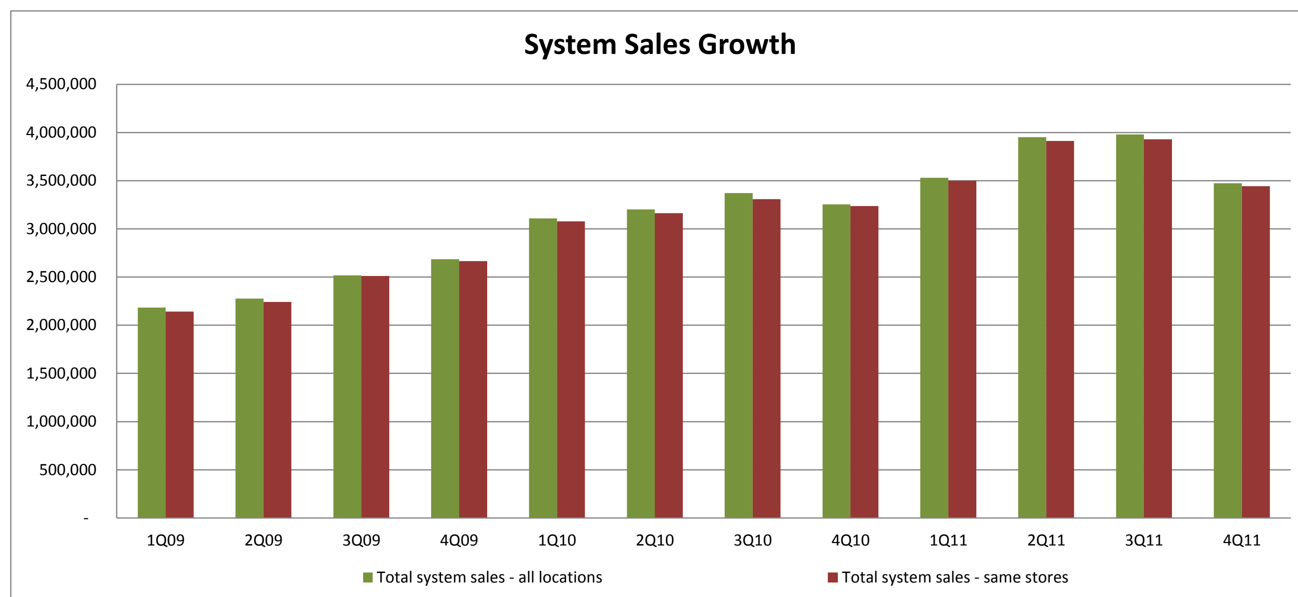
Shredding service and recycling revenue is generated by our corporate locations in Albany, Syracuse and Milwaukee. These revenues are generated in US dollars which are translated at the average exchange rate for the period. For the three months ended December 31, 2011, shredding service and recycling revenues, denominated in US dollars were $470,465 USD. For the twelve months ended December 31, 2011, shredding service and recycling revenues, denominated in US dollars were $2,034,582 USD.

### *System Sales*

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

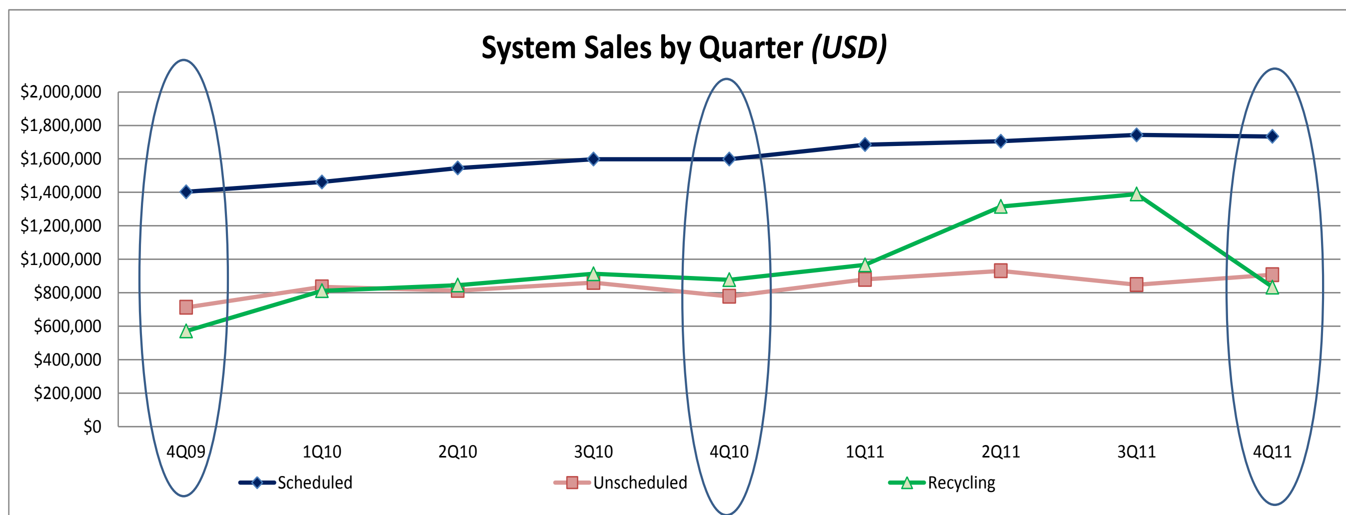
| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| Total operating locations at period end | **19** | 18 | 6% | **19** | 18 | 6% |
| Territories | **75.0** | 72.4 | 4% | **75.0** | 72.4 | 4% |
| Total system sales (USD) | **$ 3,474,657** | $ 3,253,687 | 7% | **$ 14,936,708** | $ 12,937,195 | 15% |
| Total system sales (CDN) | **$ 3,555,269** | $ 3,297,840 | 8% | **$ 14,769,417** | $ 13,335,014 | 11% |

The following chart illustrates system sales growth by quarter since 2009.



*System Sales Quarter Over Quarter:*

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




Service related system sales, scheduled and unscheduled, were $2,641,341 for the fourth quarter of 2011, growing by $264,806 over the fourth quarter of 2010. Same store sales for the analysis above has not been broken out as only one new location was opened in each of 2010 and 2011. Their sales did not have a material impact.

<u>Scheduled sales:</u>

Scheduled sales are defined as the revenue generated from customers with regular service that may occur on a weekly, bi-weekly, or monthly basis. Proshred sales and marketing strategies have been and continue to be focused on this particular sales category, as this provides our franchisees and corporate locations with stable and recurring cash flows. This resulted in continued growth in this category in the fourth quarter of 2011 versus the same quarter in 2010.

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| Scheduled service sales (USD) | **$1,733,851** | $1,598,440 | 8% | **$ 6,866,676** | $ 6,203,715 | 11% |

<u>Unscheduled sales:</u>

Unscheduled sales are defined as the revenue generated from customers who have one-time or seasonal requirements for document destruction. An example of unscheduled sales is when an accounting firm is required to destroy an abundance of confidential working papers and documents after their tax season.

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| Unscheduled service sales (USD) | **$ 907,490** | $ 778,095 | 17% | **$ 3,565,415** | $ 3,285,974 | 9% |

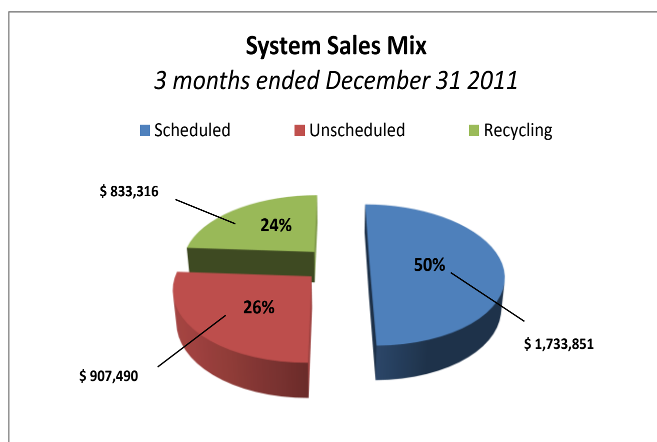
Recycling sales:

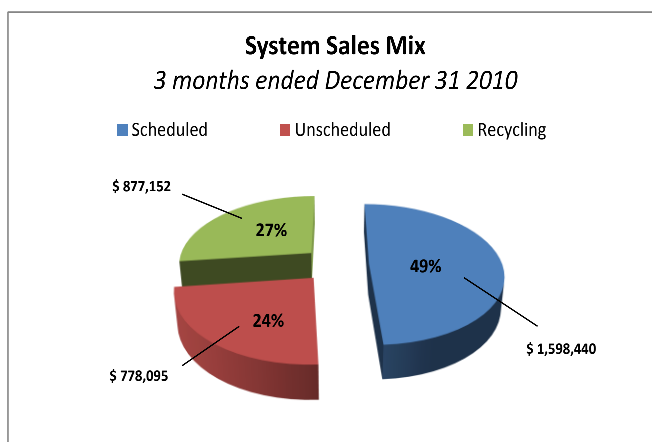
Recycling sales are defined as the revenue generated from the shredded paper and other material that is sold to various recycling companies. This sales category is driven by global supply and demand for shredded paper. From the last quarter of 2009 to the third quarter of 2011, prices for recycled paper products increased and grew to near record highs. During the fourth quarter of 2011, prices decreased substantially from the prior quarter's record highs.

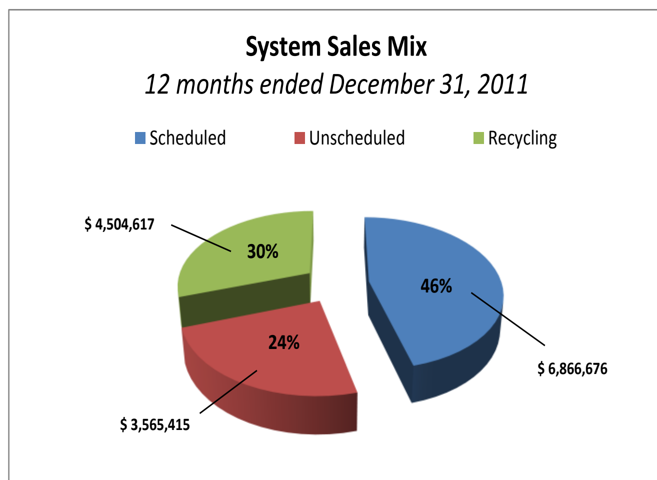
| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| Recycling sales (USD) | **$ 833,316** | $ 877,152 | (5)% | **$ 4,504,617** | $ 3,447,506 | 31% |

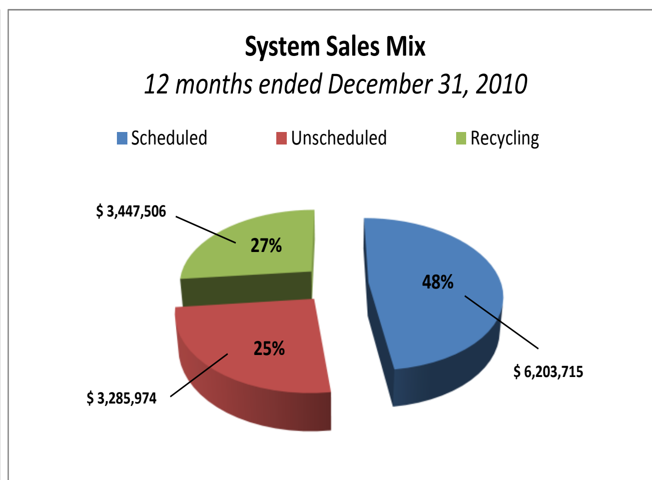
Mix of business:

Scheduled sales account for 46% of total sales for the twelve months ended December 31, 2011 and 50% of total sales for the fourth quarter of 2011. Unscheduled sales account for 24% of total sales for the twelve months ended December 31, 2011 and 26% of total sales for the fourth quarter of 2011. Recycling sales account for 30% of total sales for the twelve months ended December 31, 2011 and 24% of total sales for the fourth quarter of 2011.

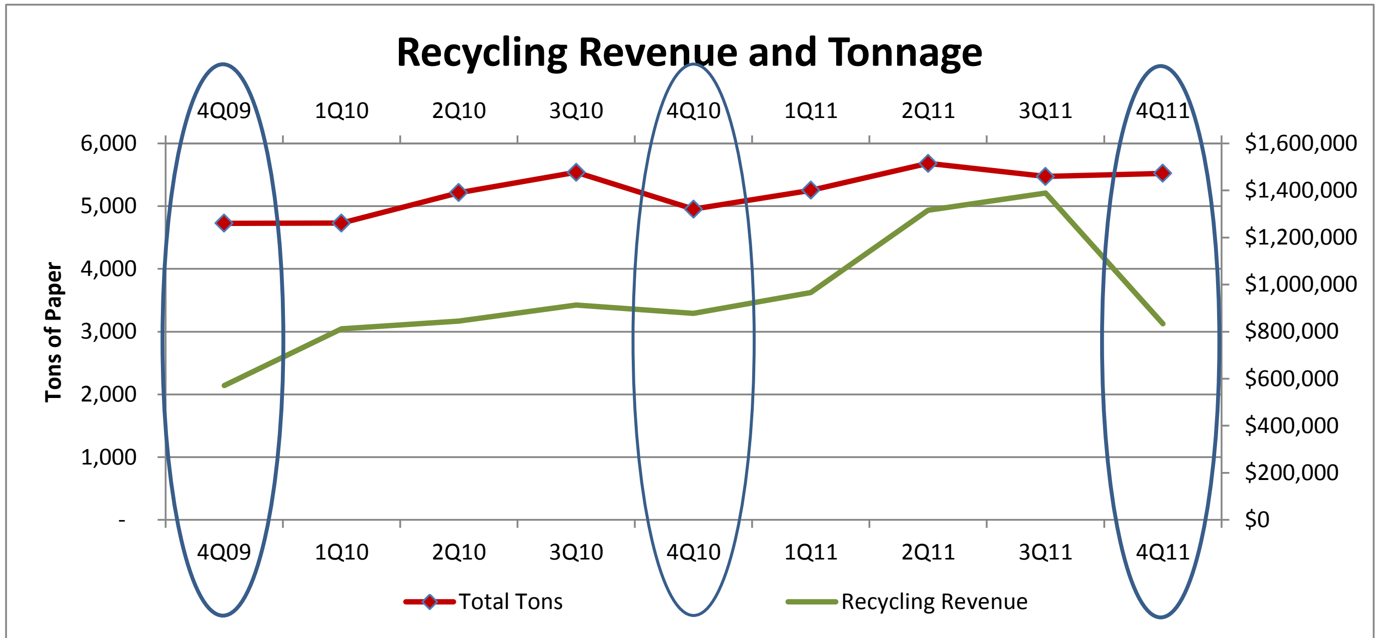


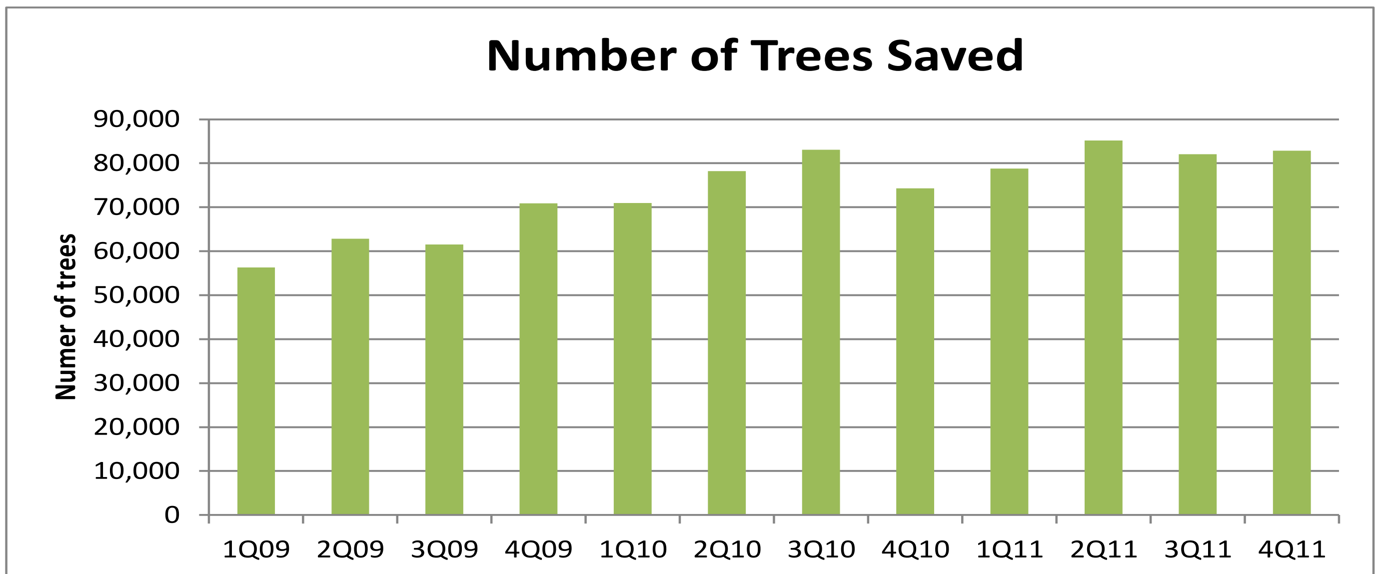



The system as a whole has continued to shred and recycle increased volumes of paper. During the twelve months ended December 31, 2011, the system shredded and recycled 21,900 (20,400 – December 31, 2010) tonnes of paper, which equates to 328,000 (306,500 – December 31, 2010) trees being saved.



### *Operating Expenses*

| | 3 months ended December 31 | | | 12 months ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| | **$** | $ | | **$** | $ | |
| Salaries | **212,286** | 207,172 | (2)% | **842,155** | 876,349 | 4% |
| General, administrative and marketing – on-going | **226,427** | 202,704 | (12)% | **766,063** | 694,847 | (10)% |
| General, administrative and marketing – one-time costs | **151,525** | - | (100)% | **599,355** | - | (100)% |
| Bad debt expense | **59,341** | 20,263 | (193)% | **103,320** | 35,811 | (189)% |
| Broker fees | **98,197** | - | (100)% | **121,612** | 25,527 | (376)% |
| Depreciation and amortization - equipment | **(2,539)** | 2,328 | 209% | **3,014** | 6,520 | 54% |
| Total operating expenses | **745,237** | 432,467 | (72)% | **2,435,519** | 1,639,054 | (49)% |

Operating expenses for the twelve months ended December 31, 2011 include expenses to support 22 Proshred locations in operation, training and initial support for pending locations, the costs to develop new markets by way of franchising, licensing and acquisition and the amortization of office equipment and furniture and fixtures. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. The Company continues to closely monitor and control all operating expenses. General, administration and marketing costs have increased over 2010 on a quarterly and year to date basis, primarily as a result of increased accounting costs related to the adoption of IFRS and due to legal costs associated with the defence of the current litigation against the Company.

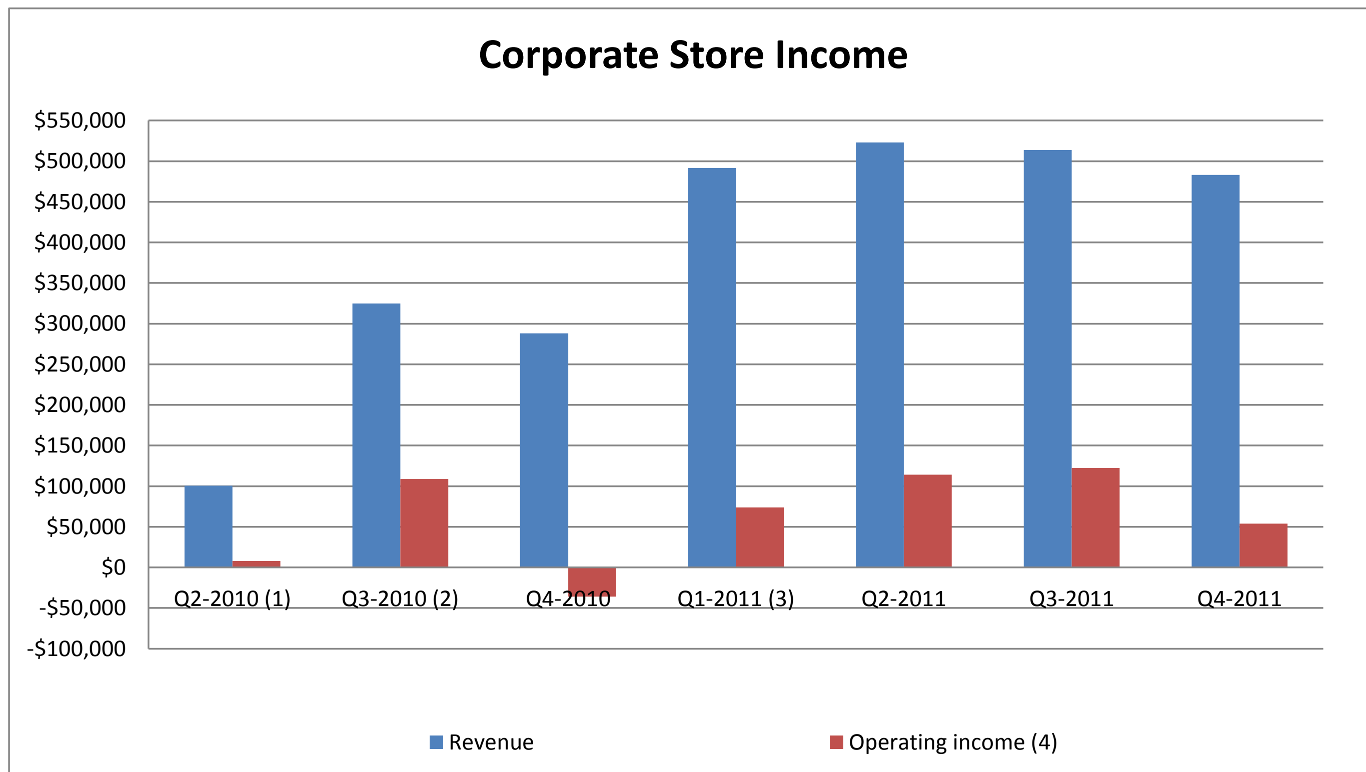
### *Corporate Operations*

The Company operates three shredding operations in Syracuse, NY, Albany, NY and Milwaukee, WI. These locations represent the Company's corporately owned and operated locations. The New York City business was acquired on January 1, 2012 and will be included in the Company's 2012 results.

| | ***3 months ended December 31*** | | | | ***12 months ended December 31*** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** **$** | % of revenue | 2010[1] $ | % of revenue | **2011** **$** | % of revenue | 2010[1] $ | % of revenue |
| Revenue: | | | | | | | | |
| Shredding service | **368,038** | 76% | 218,401 | 76% | **1,437,817** | 71% | 544,373 | 77% |
| Recycling | **115,145** | 24% | 69,734 | 24% | **573,978** | 29% | 169,338 | 23% |
| Total revenue | **483,183** | 100% | 288,135 | 100% | **2,011,795** | 100% | 713,711 | 100% |
| Operating costs | **316,774** | 66% | 231,462 | 80% | **1,230,143** | 61% | 491,558 | 69% |
| EBITDA | **166,411** | 34% | 56,673 | 20% | **781,652** | 39% | 222,153 | 31% |
| Depreciation – tangible assets | **34,271** | 7% | 34,246 | 12% | **130,536** | 6% | 71,343 | 10% |
| Interest expense | **78,240** | 16% | 32,523 | 11% | **286,915** | 14% | 73,082 | 10% |
| Corporate operating income | **53,900** | 11% | (10,096) | (4)% | **364,201** | 18% | 77,728 | 11% |

*[1] The results for the three and twelve months ended December 31, 2010 include the corporate operations of Syracuse, which began May 1, 2010 and of Albany, which began July 1, 2010.*

The following chart illustrates the last 7 quarters of results from the corporate locations:




*(1) Syracuse, NY was purchased on April 30, 2010.*
*(2) Albany, NY was purchased on June 30, 2010, operations did not commence until July 1, 2010.*
*(3) Milwaukee, WI was purchased on December 31, 2010, operations did not commence until January 1, 2011.*
*(4) Operating income is defined as revenue less operating costs, less depreciation associated with shredding trucks and other tangible assets utilized by the operation and interest expense.*

### *Operating income (loss)*

The Company posted an operating loss of $80,292 for the three months ended December 31, 2011 and an operating loss of $693,449 for the twelve months ended December 31, 2011. The operating loss was driven by increased professional fees offset by the continued growth of the Company's corporate locations, which have been accretive to Redishred's cash flows. In addition to the cash generated from the corporate locations, the Company generated additional revenues from awarding the Atlanta, GA, Phoenix, AZ and Dallas, TX franchises.

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| | **$** | $ | | **$** | $ | |
| Operating income (loss) | **(90,563)** | 24,681 | (468)% | **(703,730)** | (278,725) | (159)% |
| Operating income (loss) – excluding one-time costs | **60,602** | 24,681 | 148% | **(101,952)** | (278,725) | 62% |

### *Foreign exchange*

Foreign exchange (gain) loss was as follows:

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| | **$** | $ | | **$** | $ | |
| Foreign exchange (gain) loss | **(130,580)** | 186,464 | 170% | **(66,163)** | 143,600 | 146% |

All of Redishred's revenues are denominated in US Dollars; this dependency on US dollar revenues causes foreign exchange gains when the Canadian Dollar depreciates versus the US Dollar or when the Company incurs significant U.S. dollar costs.

***Interest income and expense***

Interest income is derived from cash savings accounts held by the Company and by way of finance income related to the financing of franchise fees. Interest expense is attributed to the use of the Company's line of credit facility, which bears interest at 10% per annum as well as interest on the loan agreements, which bears interest at 8.14% per annum. All interest costs have been attributed to the acquisition of corporate locations to date.

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| | $ | $ | | **$** | $ | |
| Interest income | **586** | 1,357 | (57)% | **2,946** | 4,945 | (40)% |
| Interest expense | **(78,240)** | (32,523) | (141)% | **(286,915)** | (73,082) | (293)% |

***Depreciation and Amortization***

Depreciation and amortization for the twelve months ended December 31, 2011 can be broken into two main classes, (1) related to the purchase of PSC and the Proshred franchise business in 2008 and (2) the assets purchased in relation to the Syracuse, Albany and Milwaukee corporate locations.

***Depreciation and Amortization***

Depreciation and amortization are as follows:

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010 | %Ch |
| **Franchise and license operations** | **$** | $ | | **$** | $ | |
| Depreciation and amortization – equipment | **(2,539)** | 1,630 | 256% | **3,014** | 6,520 | 54% |
| Depreciation and amortization – intangibles | **263,529** | 69,242 | (273)% | **338,141** | 276,967 | (22)% |
| Depreciation and amortization | **260,990** | 70,872 | 260% | **341,155** | 283,487 | 20% |
| **Corporate operations** | | | | | | |
| Depreciation and amortization – equipment | **34,271** | 34,246 | 0% | **130,536** | 71,342 | (83)% |
| Depreciation and amortization – intangibles | **41,021** | 4,326 | (848)% | **158,553** | 34,390 | (361)% |
| Depreciation and amortization | **75,292** | 38,572 | (95)% | **289,089** | 105,732 | (173)% |
| **Total** | **330,762** | 109,444 | 202% | **630,244** | 389,219 | 62% |

For the three and twelve months ended December 31, 2011, depreciation and amortization of intangibles related to the franchise and license operations increased over the prior periods due to the reversal of a portion of impairment at December 31, 2010. An impairment loss was recorded at January 1, 2010 with the adoption of IFRS. Refer to page 21 under the "Impact of adoption of IFRS" for further information. For the three and twelve months ended December 31, 2011, depreciation and amortization related to corporate operations increased significantly as a result of the acquisition of the Milwaukee location on December 31, 2010.

### *Income Tax*

On March 17, 2008 the Company booked a future tax liability relating to the purchase of PSC and PFC. During the twelve months ended December 31, 2011, the Company booked a tax recovery of $109,086. The recovery is primarily due to the reversal of timing differences related to the future tax liability that was recorded upon the acquisition of PSC as well as the reversal of impairment of intangible assets.

### *Net Income (Loss)*

| | *3 months ended December 31* | | | *12 months ended December 31* | | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | %Ch | **2011** | 2010[1] | %Ch |
| | **$** | $ | | **$** | $ | |
| Net income (loss) | **423,409** | 213,022 | 99% | **(455,083)** | (274,100) | (66)% |
| Net income (loss) – excluding one-time costs | **574,933** | 213,022 | 170% | **144,272** | (274,100) | 153% |

The Company posted a net income of $423,409 for the three months ended December 31, 2011 as a result of the reversal of a portion of the previous impairment related to intangible assets recorded at January 1, 2010 in the amount of $836,919 offset by an impairment of goodwill of $247,688 (2010 reversal of impairment related to intangible assets - $598,603). The Company also recorded a tax recovery of $109,086 in the fourth quarter of 2011. In addition, the increase in net income in the fourth quarter of 2011 versus the fourth quarter of 2010 was driven by franchise fees earned from three new franchisees as well as increased growth of the Company's corporate locations. For the twelve months ended December 31, 2011, the increase in net loss was attributable to increased professional fees related to the defence of the current litigation against the Company and accounting costs related to the conversion to IFRS. Refer to page 21 under the "Impact of adoption of IFRS" for further information.

### *Selected Quarterly Results*

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| *(in CDN except where noted)* | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** |
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **System sales *(USD)*** | **3,474,657** | **3,978,639** | **3,951,035** | **3,530,693** | **3,253,687** | **3,371,135** | **3,202,222** | **3,108,481** |
| **Total Company revenue** | **1,083,597** | **757,315** | **827,278** | **711,192** | **755,279** | **670,695** | **335,777** | **242,013** |
| Franchise and license fees | 371,381 | - | 61,989 | - | 246,249 | 109,164 | - | - |
| Royalty and service fees | 229,033 | 243,535 | 242,222 | 219,428 | 220,895 | 236,639 | 235,092 | 242,013 |
| **Total revenue from franchising and licensing** | **600,414** | **243,535** | **304,211** | **219,428** | **467,144** | **345,803** | **235,092** | **242,013** |
| On-going operating costs | (495,516) | (409,908) | (391,075) | (415,641) | (432,367) | (415,894) | (412,077) | (360,609) |
| One-time costs | (151,525) | (315,541) | (87,680) | (44,609) | - | - | - | - |
| Broker fees | (98,197) | - | (23,406) | - | - | (25,675) | - | - |
| Total operating expenses | (745,237) | (725,449) | (502,161) | (460,250) | (432,367) | (441,569) | (412,077) | (360,609) |
| **Total operating income (loss) – franchising and licensing** | **(144,823)** | **(481,914)** | **(197,950)** | **(240,822)** | **34,777** | **(95,766)** | **(176,985)** | **(118,596)** |
| Corporate locations revenue | 483,183 | 513,780 | 523,068 | 491,764 | 288,135 | 324,892 | 100,685 | - |
| Corporate locations costs | (351,043) | (321,058) | (339,315) | (349,262) | (265,708) | (213,409) | (83,678) | - |
| Interest expense | (78,240) | (70,322) | (69,559) | (68,795) | (32,523) | (31,361) | (9,198) | - |
| **Total operating income (loss) - corporate** | **53,900** | **122,400** | **114,194** | **73,707** | **(10,096)** | **80,122** | **7,809** | **-** |
| **Total operating income (loss) – excluding one-time costs** | **60,602** | **(43,973)** | **3,925** | **(122,506)** | **24,681** | **(15,644)** | **(169,176)** | **(118,596)** |
| Income (loss) before taxes | 324,925 | (312,605) | (245,583) | (330,908) | 196,369[(1)] | (81,362) | (222,006) | (217,110) |
| Profit (loss) attributable to owners of the parent | 423,409 | (309,946) | (244,583) | (325,908) | 213,022[(1)] | (60,006) | (216,006) | (211,110) |
| Profit (loss) excluding one-time costs | 574,933 | 5,595 | (156,903) | (281,297) | 213,022[(1)] | (60,006) | (216,006) | (211,110) |
| Basic and diluted net income (loss) per share | .01 | (.01) | (.01) | (.01) | .01[(1)] | (.00) | (.01) | (.01) |

*(1) The Company has restated 2010 net loss and loss per share as the Company reversed a portion of impairment at December 31, 2010. The impairment originally recorded at the January 1, 2010 opening balance sheet. Further information can be found on page 21 under "Impact of adoption of IFRS."*

*2011*

System sales experienced double digit growth in 2011 over 2010. System sales have been driven by growth in scheduled sales and by revenues generated from the recycling of the paper by-product. As shredding customers are serviced during business days, the quarterly system sales are impacted by the number of business days in any given quarter. Therefore, the Company experiences higher system sales and related royalty fees and corporate revenues in the 2nd and 3rd quarters of every year and lower system sales and related royalty fees and corporate revenues in the 1st and 4th quarters of every year. The lower royalty fees in the 4th quarters of 2011 and 2010 have been offset by franchise fees collected related to awarding new franchisees or licensees. The quarterly reduction in royalty revenues in 2011 over 2010 were driven by the conversion of three franchise locations to corporate locations, partially offset by the increase in system sales. For the 4th quarter of 2011, on-going operating costs related to franchising and licensing include bad debt expense of $59,341 related to one franchisee.

*2010*

System sales have seen upward momentum since the second quarter of 2009, due to continued growth in service related system sales, and due to very strong growth in recycling related system sales. The Company also operated two corporate locations, resulting in increased income from this business segment. The Company in 2010 has continued to minimize operating overheads, resulting in a 22% reduction in costs versus fiscal 2009. For the majority of 2010, the Canadian dollar continued to strengthen versus the US dollar, resulting in tempered growth in royalty revenues reported versus 2009.

***Balance Sheet***

| | **December 31, 2011** | December 31, 2010 |
|---|---|---|
| Working capital | **$ 2,982,233** | $ 840,301 |
| Total assets(1) | **9,006,024** | 6,631,248 |
| Total liabilities(1) | **6,726,456** | 3,921,632 |

The Company entered into a line of credit facility 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. On October 31, 2011, the line of credit was increased to $5.37 million; all other terms of the agreement remained unchanged. On November 11, 2011, the Company entered into a loan and security agreement in the amount of $240,000 denominated in US dollars, repayable on a monthly basis until October 3, 2015. The loan bears interest at 8.14% per annum and is secured by two shredding vehicles. As of December 31, 2011, the Company has utilized $5.37 million of the line of credit to purchase the Syracuse, Albany and Milwaukee businesses in 2010 and the New York City business on January 1, 2012. In March 2012, the line of credit was increased by $0.63 million to $6.0 million; all other terms of the agreement remained unchanged.

The Company issued no dividends during the year.

*(1) The Company has restated 2010 total assets and total liabilities as the Company reversed a portion of impairment originally incurred at the January 1, 2010 opening balance sheet. Further information can be found on page 21 under "Impact of adoption of IFRS."*

### Financial Condition / Capital Resources / Liquidity

As of December 31, 2011, the Company has working capital of $2,982,233 (December 31, 2010 - $840,301). The Company also has access to a $5.37 million line of credit, of which $5.37 million has been drawn as of December 31, 2011. $2.5 million of the cash was used to purchase the New York City business from a current franchisee on January 1, 2012.

The Company monitors its cash balances and cash flows generated from operations to meet its requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due over the next twelve months. During 2010, the Company used $2.79 million of its line of credit facility to acquire the Syracuse, Albany and Milwaukee franchises, two shredding trucks and initial working capital for the acquired businesses. On October 31, 2011, the line of credit was increased to $5.37 million and the funds were used to acquire the New York City franchise on January 1, 2012. Subsequent to year-end, in March 2012, the line of credit was increased by $0.63 million to $6.0 million. The line of credit is repayable on November 27, 2014 with interest payments due semi-annually, all other terms of the agreement remained unchanged. The accounts payable, accrued liabilities and notes payable of $708,195 at December 31, 2011 (December 31, 2010 - $641,400) are due to be settled within one year from the balance sheet date. It is management's plan to continue its core business strategy of (1) conducting accretive acquisitions, and (2) continuing to franchise in the United States. The Company estimates that it will be necessary to conduct one acquisition and to award between two and four new franchise locations over the next 12 months in order to achieve a breakeven level of cash-flows. One-time franchise fees from new franchises have historically generated between $35,000 and $100,000 per franchise location. Additionally, new franchise locations add to recurring royalty and fee revenues.

The Company has the following lease commitments:

| | $ |
|---|---|
| Less than 1 year | 156,372 |
| Between 1 and 5 years | 140,232 |
| More than 5 years | - |
| Total | 296,604 |

### Capital Assets

| *As at,* | **December 31, 2011** | December 31, 2010 | % Ch |
|---|---|---|---|
| | **$** | $ | |
| Net book value | **565,294** | 660,506 | (14)% |

Capital assets (not including intangible assets) decreased to $565,294 as a result of additional depreciation expense that was offset by the purchase of additional bins and shredding containers during the year.

### Off-Balance Sheet Financing Arrangements

The Company has no off-balance sheet financing arrangements.

## Adoption of International Financial Reporting Standards

### Impact of Adoption of IFRS

Redishred has adopted IFRS effective January 1, 2010 (the transition date) and has prepared its opening balance sheet as at that date. Prior to the adoption of IFRS the Company prepared its financial report in accordance with previous Canadian GAAP. The Company's consolidated financial report for the year ended December 31, 2011 is the first annual financial report that complies with IFRS.

IFRS is premised on a conceptual framework similar to previous Canadian GAAP, however, there are significant differences in certain matters of recognition, measurement, presentation and disclosures. While the adoption of IFRS did not have an impact on Redishred's reported net cash flows, it did have a material impact on the Company's consolidated balance sheets and statements of income.

The three months ended March 31, 2011 unaudited consolidated interim financial report was the Company's first financial statements reported under IFRS. As these statements represented the Company's initial presentation of its results and financial position in accordance with IFRS, the Company presented its opening IFRS balance sheet at January 1, 2010. In addition, the Company disclosed the equity reconciliations of the effect of the transition from Canadian GAAP to IFRS at January 1, 2010, March 31, 2010 and December 31, 2010 as well as the comprehensive loss reconciliation for the three months ended March 31, 2010 and the year ended December 31, 2010. At December 31, 2011, Redishred re-stated certain balance sheet accounts in its IFRS balance sheet at January 1, 2010 and December 31, 2010 as well as its financial results for the year ended December 31, 2010. The impact and substance of the re-statement is described below.

#### *Balance Sheet Impact*

The most significant balance sheet impact of IFRS relates to the valuation of Redishred's tangible and intangible assets, and in particular the method of measuring impairment. Under previous Canadian GAAP, an impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The impairment loss is then measured as the amounts by which the carrying amount of a long-lived asset exceeds its fair value.

Under IFRS, an impairment loss is the amount by which the carrying amount of an asset or a cash generating unit ("CGU") exceeds its recoverable amount. A CGU is defined as the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use. If the recoverable amount is less than the carrying amount, then the carrying amount is reduced to the recoverable amount. The cash inflows of a CGU are inflows of cash and cash equivalents received from third parties. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. The reversal is limited to restoring the carrying amount such that it does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

Redishred measures its cash flows from individual franchisee royalty streams and from individual corporate locations. Additionally, IFRS measures the recoverability of the carrying value of assets using discounted cash flows. As a result, the impact of this accounting change resulted in a $2,388,818 decrease in the value of Redishred's tangible and intangible assets at the opening IFRS balance sheet date of January 1, 2010, which was a 52% decrease in the carrying value under previous Canadian GAAP at December 31, 2009. In its interim unaudited financial statements for the 3 months ended March 31, 2011, Redishred reported a decrease in the value of its' tangible and intangible assets of $3,150,000 at the opening IFRS balance sheet date.

These changes to the opening balance sheet required a corresponding tax adjustment. The tax adjustment resulted in a $94,551 decrease in the Company's future income tax liability as at January 1, 2010 compared to December 31, 2009 under previous Canadian GAAP. In its first quarter 2011 unaudited financial statements, the Company reported a $477,983 decrease in the Company's future income tax liability at January 1, 2010. The deferred tax liability was originally recognized as the difference between the accounting value of the intangible assets and their related tax values. The change in the impairment of intangible assets directly impacted the corresponding tax adjustment.

The Company's accounting for stock options was also impacted by the change to IFRS. The change resulted in a $30,548 increase in contributed surplus at January 1, 2010.

The net difference of these adjustments flowed through Shareholders' Equity, which decreased by $2,294,268 at the transition date. Redishred's previous deficit of $3,642,286 at December 31, 2009 was adjusted by $2,183,195, resulting in a deficit of $5,825,481 under IFRS as at January 1, 2010. In its first quarter 2011 unaudited financial statements, the Company reported a decrease of $2,672,017 to Shareholders' Equity at the transition date and an adjustment of $2,560,943 to the deficit at December 31, 2009, resulting in a deficit of $6,203,229 at January 1, 2010.

At December 31, 2010, the Company recovered $416,814 in depreciation recorded under previous Canadian GAAP as a result of the impairment loss taken at the opening IFRS balance sheet. In its 2011 first quarter unaudited financial statements, Redishred reported a $389,809 recovery in amortization directly a result of the previously reported impairment loss at January 1, 2010.

At December 31, 2010, the Company assessed its indicators for impairment and reversals of previously recorded impairment and determined that the recoverable amount of certain CGUs was higher than their carrying amounts and recorded a reversal of impairment of intangible assets of $599,032. In its first quarter 2011 unaudited financial statements, the Company did not report a reversal of impairment of intangible assets. The reversal of previously recorded impairment and the recovery of amortization directly impacted the deferred tax liability. The deferred tax liability was increased by $47,422 at December 31, 2010. Redishred previously reported an increase of $40,487 to the deferred tax liability.

Please refer to note 25 of Redishred's 2011 audited consolidated financial statements for a reconciliation of equity from previous Canadian GAAP to IFRS as at January 1, 2010 and December 31, 2010.

### *Income Statement Impact*

In adopting IFRS, Redishred restated its income statement for the year ended December 31, 2010. The accounting changes resulted in a net loss based under IFRS of $274,100, compared to a net loss of $1,217,490 under previous Canadian GAAP. This change was primarily attributable to a $416,814 decrease in amortization as a result of the impairment impact at the transition date as well as an increase in future income tax expense of $47,558. The Company also adjusted its share-based payments in order to comply with IFRS standards, which resulted in a $28,322 decrease in general and administrative expense. Lastly, the acquisition costs related to the business combinations entered into in 2010 were expensed rather than capitalized as previously required under Canadian GAAP. This resulted in an increase in general and administrative expense of $53,352. In its first quarter 2011 unaudited financial statements, the Company reported a net loss based under IFRS of $890,614 due to the reduction of impairment loss determined at the opening balance sheet which directly impacted the amortization and deferred tax liability during the year ended December 31, 2010.

Please refer to note 25 of Redishred's 2011 audited consolidated financial statements for a reconciliation of comprehensive loss as reported under previous Canadian GAAP to IFRS for the year ended December 31, 2010.

### *Variability of Results with IFRS*

Redishred's consolidated operating results may vary substantially from year to year for a number of reasons, including the following: the current economic environment including volatility of currency exchange rates; the change in value of stock-based compensation; changes in tax legislation or in the application of tax legislation; and activities at Redishred's operating subsidiaries. These activities may include the purchase of businesses; fluctuations in customer demand and employee related costs; changes in the mix of revenue earned; changes in the financing of the business; impairments of goodwill, intangible assets or long lived assets; and litigation.

### *Elections Applied in Adopting IFRS*

In preparing this consolidated financial report in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

*Business combinations* – IFRS 1 allows for the guidance under IFRS 3 (revised), *Business Combinations*, to be applied either retrospectively or prospectively. Redishred has elected to adopt IFRS 3 (revised) prospectively. Accordingly, all business combinations on or after January 1, 2010 will be accounted for in accordance with IFRS 3 (revised).

*Cumulative translation differences* – IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. Redishred deemed all cumulative translation differences to be zero on transition to IFRS.

In preparing this consolidated financial report in accordance with IFRS 1 the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

*Estimates* – Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP will not be revised for the application of IFRS except where necessary to reflect any differences in accounting policies between IFRS and Canadian GAAP.

### Future Accounting Policy Changes

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted unless otherwise noted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is effective on or after January 1, 2015.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, 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*.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

(iv) IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) 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.

(vii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

(viii) IFRS 7, *Financial Instruments: Disclosures,* has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

**Transactions with Related Parties**

Mr. Mark MacMillan, a Director of the Company is the owner of the Tampa, Florida Proshred franchise. Included in accounts and notes receivable at December 31, 2011, is $1,592 (December 31, 2010 - $9,141) due from the Director's franchise. During the year ended December 31, 2011, the Company earned royalty and service fee amounts of $87,165 (December 31, 2010 - $79,560) from the Director's franchise.

Included in selling, general and administrative expenses for the year ended December 31, 2011 are insurance premium amounts of $15,317 (December 31, 2010 - $16,929) paid to Alfred J. Bell & Grant Ltd, owned by a Director of the Company.

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

## Risks and Uncertainties

The Company's financial performance is likely to be subject to the following risks:

Competition

The Company competes with numerous owners and operators in the document destruction business, some of which own or may in the future own, businesses that compete directly with the Company and some of which may have greater resources. Direct competitors to the Company include Iron Mountain Incorporated, Recall, Shred-It America, Inc., Cintas, Brinks and other small, independent mobile shredding businesses.

Negative Near-Term Cash Flow

The Company is still in its early stage of development and has not yet reached the size and scale to generate sufficient royalty and fee revenues to produce a positive cash flow from its franchise system. Accordingly, the Company may require additional capital to operate and grow so as to reach this necessary critical mass. Additionally, the Company will continue to identify and evaluate other shredding businesses or related assets with a view to acquiring such businesses or assets that are accretive to the cash flows of the Company. In order to complete these acquisitions, the Company may be required to seek additional financing.

Franchising Strategy

The Company's business strategy involves the establishment of new Franchises. The Company may not be successful in establishing new Franchises and the failure to do so will slow the Company's growth. Furthermore, even if the Company were successful in establishing new Franchises, these new Franchises may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with terminating these Franchises or ensuring their continued operation. If the new Franchises fail to perform as expected or incur significant increases in projected costs, the Company's revenues could be lower, and its operating expenses higher, than expected.

Acquisition Strategy

The Company's business strategy involves expansion through acquisitions and business development projects. These activities require the Company to identify acquisition or development candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying document destruction businesses that meet its acquisition or development criteria or in completing acquisitions, developments or investments on satisfactory terms. Failure to complete acquisitions or developments will slow the Company's growth. The Company could also face significant competition for acquisitions and development opportunities. The Company may also require additional financing to conduct acquisitions. Some of the Company's competitors have greater financial resources than the Company and, accordingly, have a greater ability to borrow funds to acquire businesses.

These competitors may also be willing and/or able to accept more risk than the Company can prudently manage, including risks with respect to the geographic concentration of investments and the payment of higher prices. This competition for investments may reduce the number of suitable investment opportunities available to the Company, may increase acquisition costs and may reduce demand for document destruction services in certain areas where the Company's business is located and, as a result, may adversely affect the Company's operating results.

Corporate Locations

The Company's newly acquired businesses may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with the integration of the acquired businesses. In addition, any business expansions the Company undertakes is subject to a number of risks, including, but not limited to, having sufficient ability to raise capital to fund future expansion, and having sufficient human resources to convert, integrate and operate the acquired businesses. If any of these problems occur, expansion costs for a project will increase, and there may be significant costs incurred for projects that are not completed.

In deciding whether to acquire or expand a particular business, the Company will make certain assumptions regarding the expected future performance of that business. If the Company's acquisition or expansion businesses fail to perform as expected or incur significant increases in projected costs, the Company's revenues could be lower, and its operating expenses higher, than expected.

International Strategy

The Company's business strategy involves expansion into international markets through licensing. These activities require the Company to identify international candidates and meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying licensees that meet its licensing criteria. Failure to expand internationally will slow the Company's growth. Additionally, the international licensee under the Companies current license agreement may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with ensuring their continued growth. If the international licensee fails to perform as expected, the Company's revenues could be lower.

Currency Fluctuations

The Company's principal executive office is in Canada, all the directors and officers of the Company are Canadian and many significant expenses of the Company are in and will be for the foreseeable future in Canadian dollars, while revenues will be measured in US dollars or other currency. Accordingly, the financial results of the Company will be impacted by fluctuations in currencies and rates.

Expansion to New Markets

It is the plan of management to continue expanding the Proshred Franchise Business in the United States and internationally including areas where customers are unfamiliar with the Proshred brand. The Company will need to build brand awareness in those markets through greater investments in advertising and promotional activity than in existing markets, and those activities may not promote the Proshred brand as effectively as intended, if at all. Many of the United States and international markets into which management intends to expand will have competitive conditions, consumer tastes and discretionary spending patterns that differ from existing markets. Franchises in those markets may have lower sales and may have higher operating or other costs than existing Franchises. Sales and profits at Franchises opened in new markets may take longer to reach expected levels or may never do so.

Litigation

The Company may become subject to disputes with employees, franchisees, customers, commercial parties with whom it maintains relationships or other parties with whom it does business. Any such dispute could result in litigation between the Company and the other parties. Whether or not any dispute actually proceeds to litigation, the Company may be required to devote significant resources, including management time and attention, to its successful resolution (through litigation, settlement or otherwise), which would detract from management's ability to focus on the Company's business. Any such resolution could involve the payment of damages or expenses by the Company, which may be significant. In addition, any such resolution could involve the Company's agreement to certain settlement terms that restrict the operation of its business. Further details on pending or current litigation may be found in note 20 to the 2011 audited financial statements.

## Use of estimates and judgements

The preparation of the financial report in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Subjects that involve critical assumptions and estimates and that have a significant influence on the amounts recognized in the consolidated financial report are further described as follows:

*i) Business combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values, which represents a significant estimate. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in an amendment of the fair value allocation.

*ii) Impairment*

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The determination of the value in use and fair value of a CGU to which goodwill is allocated to involves the use of estimates by management. The Company uses discounted cash flow based methods to determine these values. These discounted cash flow calculations typically use five-year projections that are based on the operative plans approved by management. Cash flow projections take into account past experience and represent management's best estimate of future developments. Cash flows after the planning period are extrapolated using estimated growth rates. Key assumptions on which management has based its determination of fair value less costs to sell and value-in-use include estimated growth rates, discount rates, future cash flows, margins and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment.

**Investor Relations Activities**

The Company does not have any investor relations arrangements.

**Share Data**

The Company's authorized share capital is unlimited common shares without par value. As at December 31, 2011, there were 28,884,658 issued and outstanding common shares. As at December 31, 2011 there were 1,677,500 options to acquire common shares and 4,000,000 warrants to acquire common shares. There have been 150,000 options granted during the twelve months ended December 31, 2011 (December 31, 2010 – 350,000). As of April 30, 2012 there are 28,884,658 issued and outstanding common shares, 1,677,500 options to acquire common shares and 4,000,000 warrants to acquire common share.

**Governance**

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. Our Chief Executive Officer and Chief Financial Officer have evaluated the design and effectiveness of our disclosure controls and procedures as of December 31, 2011. They have concluded that our current disclosure controls and procedures are designed to provide, and do operate to provide, reasonable assurance that (i) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

Additionally, the Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining Internal controls over financial reporting ("ICFR"). ICFR are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in the Company's ICFR during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our ICFR.

## Contingencies

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. Subsequent to year-end, on January 1, 2012, in conjunction with the purchase of the Proshred New York City business by the Company, the New York City franchisee permanently withdrew from the legal complaint. As of January 1, 2012, two franchisees remain in 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.

## Subsequent Events

On January 1, 2012, the Company completed the acquisition of the Proshred New York City business from an existing franchisee for an aggregate purchase price of $2,569,000 USD's. The Company withdrew from its line of credit facility and has obtained vendor financing relating to the purchase of the New York City assets. In conjunction with the purchase of the business, the exiting franchisee withdrew from the legal complaint filed against the Company in June 2010. The New York City operating results will be included in the 2012 financial statements.

On January 31, 2012, the Company announced that it has entered into an agreement with its Chicago South franchisee to franchise the Chicago North territory. The Chicago South franchisee has also renewed his Franchise Agreement for an additional five year period. The Company will recognize $93,300 USD's in franchise fee revenue in the 1st quarter of 2012.

In March 2012, the line of credit was increased by $0.63 million to $6.0 million; all other terms of the agreement remained unchanged.

Dated: April 30, 2012