RediShred Capital Corp.

Consolidated Financial Statements
March 31, 2011 and 2010
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

June 29, 2011

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2011.

RediShred Capital Corp.

Unaudited Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current Assets			
Cash	$ 771,004	$ 988,592	$ 1,086,036
Accounts receivable	552,768	414,910	321,588
Prepaid expenses	68,853	44,854	16,832
Notes receivable from franchisees (note 7)	27,769	33,178	24,445
Income taxes recoverable	9,946	-	11,062
	1,430,340	1,481,534	1,459,963
Non-current Assets			
Notes receivable from franchisees (note 7)	87,037	108,705	139,781
Equipment (note 8)	625,564	661,311	11,239
Intangible assets (note 10)	1,667,812	1,781,865	1,408,124
Goodwill (note 11)	1,082,583	1,120,167	-
Deferred financing charges (note 9)	82,824	88,345	110,431
Total Assets	4,976,160	5,241,927	3,129,538
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	511,921	513,559	340,021
Notes payable	124,533	127,883	-
	636,454	641,442	340,021
Non-current Liabilities			
Long-term debt (note 15)	2,790,000	2,790,000	-
Deferred tax liability (note 14)	90,000	95,000	168,000
Total Liabilities	3,516,454	3,526,442	508,021
Total Equity	1,459,706	1,715,485	2,621,517
Total Liabilities and Equity	$ 4,976,160	$ 5,241,927	$ 3,129,538

Commitments and contingency (note 16)

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

RediShred Capital Corp.

Unaudited Consolidated Statements of Comprehensive Loss
For the three months ended March 31, 2011 and 2010

(expressed in Canadian dollars)

	2011	2010
Revenue	$ 711,192	$ 242,013
Corporate operating expenses (note 5)	(388,791)	-
Selling, general and administrative expenses (note 6)	(585,456)	(460,661)
Loss before interest and taxation	(263,055)	(218,648)
Interest expense	(68,795)	-
Interest income	942	1,538
Loss before taxation	(330,908)	(217,110)
Recovery of income taxes (note 14)	5,000	6,000
Net loss for the period	(325,908)	(211,110)
Other comprehensive loss, net of tax:		
Foreign currency translation gain (loss)	68,033	(58,292)
Comprehensive loss for the period	(257,875)	(269,402)
Net loss per share - Basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	28,884,658	28,884,658

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

RediShred Capital Corp.

Unaudited Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Capital stock $ (note 13)	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total shareholders' equity $
Balance - January 1, 2010	**8,585,808**	**238,938**	**-**	**(6,203,229)**	**2,621,517**
Net loss	-	-	-	(211,110)	**(211,110)**
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(58,292)	-	**(58,292)**
Stock-based compensation	-	(3,806)	-	-	**(3,806)**
Balance - March 31, 2010	**8,585,808**	**235,132**	**(58,292)**	**(6,414,339)**	**2,348,309**
Net loss	-	-	-	(679,505)	**(679,505)**
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(16,026)	-	**(16,026)**
Stock-based compensation	-	62,707	-	-	**62,707**
Balance - December 31, 2010	**8,585,808**	**297,839**	**(74,318)**	**(7,093,844)**	**1,715,485**
Net loss	-	-		(325,908)	**(325,908)**
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	68,033	-	**68,033**
Stock-based compensation	-	2,096	-	-	**2,096**
Balance - March 31, 2011	**8,585,808**	**299,935**	**(6,285)**	**(7,419,752)**	**1,459,706**

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

RediShred Capital Corp.

Unaudited Consolidated Statements of Cash Flows
For the three months ended March 31, 2011 and 2010

(expressed in Canadian dollars)

	2011	2010
Cash provided by (used in)		
Operating activities		
Loss before income tax	$ (330,908)	$ (217,110)
Adjustments not affecting cash		
Depreciation and amortization	124,373	109,400
Unrealized foreign currency loss (gain)	110,437	(9,661)
Write-down of intangible assets	-	-
Stock-based compensation	2,097	(3,806)
Interest income	(942)	(1,538)
Interest expense	68,795	-
Interest received	636	838
Income taxes paid	(52,019)	-
	(77,531)	(121,877)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(137,858)	(55,723)
Decrease (increase) in prepaid expenses and deferred charges	(23,999)	(8,703)
Increase (decrease) in accounts payable and accrued liabilities	(1,638)	(90,055)
Increase (decrease) in taxes payable	9,946	635
	(231,080)	(275,723)
Investing Activities		
Collection of notes receivable from franchisees	27,078	11,061
Purchase of capital assets	(13,586)	-
	13,492	11,061
Effect of foreign exchange rate changes on cash	(14,325)	(10,619)
Net change in cash for the period	(203,263)	(254,043)
Cash - Beginning of period	988,592	1,086,036
Cash - End of period	$ 771,004	$ 821,374

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

(expressed in Canadian dollars)

1 Corporate information

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

These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2011. Together, Redishred and its subsidiaries are referred to as “the Company.”

The consolidated financial statements of the Company for the period ended March 31, 2011 were authorized for issue in accordance with a resolution of the Directors on June 21, 2011.

2 Basis of Presentation

2.1 Statement of compliance

The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* (“IAS 34”) and IFRS 1, *First-time Adoption of IFRS* (“IFRS 1”), using accounting policies in full compliance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

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

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

(expressed in Canadian dollars)

2 Basis of Presentation (continued)

2.1 Statement of compliance (continued)

As these statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of IFRS". These interim financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its financial statements for the year ended December 31, 2011. The policies set out below have been consistently applied to all the periods presented, as if these policies had always been in effect. These unaudited interim consolidated financial statements should be read in conjunction with the 2010 Canadian GAAP annual consolidated financial statements.

In preparing the Company's 2011 consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods applied in the Canadian GAAP financial statements to comply with IFRS. In preparing these interim consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS. The comparative financial information has been restated to reflect these adjustments. Note 4 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the comprehensive loss for the year ended December 31, 2010 and the three months ended March 31, 2010. In addition, equity is reconciled at January 1, 2010, March 31, 2010 and December 31, 2010.

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

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

(expressed in Canadian dollars)

2 Basis of Presentation (continued)

2.2 Basis of presentation (continued)

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

2.3 Basis of consolidation

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

The Company's subsidiaries include:

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

3 Significant accounting policies

Revenue recognition

(i) Franchising and licensing business

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Revenue recognition (continued)

(ii) 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 recorded when the shredding service has been performed and the Company has provided a certificate of destruction and an invoice to the client, and collections are reasonably assured. Recycling revenue is recognized when the collected paper has been delivered to the recycling facility and collections are reasonably assured.

Cash

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs. Refer to note 19 for cash balances by operating segment.

Advertising fund assets and liabilities

The Company manages an advertising fund (the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on a percentage of each location's revenue. As at March 31, 2011, the Ad Fund was in a net surplus position of $32,085 (March 31, 2010 – $13,219), with cash attributable to the Ad Fund amounting to $96,754 (December 31, 2010 - $87,720) included in the Company's cash balance, offset by a corresponding amount included in accounts payable and accrued liabilities.

Taxation

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the date of statement of financial position. Current income tax relating to items recognized directly in equity is recognized in equity. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

3 Significant accounting policies (continued)

(ii) Deferred income tax (continued)

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at the end of the reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income tax assets and liabilities are presented as non-current and determined on a non-discounted basis.

Share-based payments

The Company issues share-based awards to certain employees and non-employee directors whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense is recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefit's expense.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Foreign currency translation

The Company has elected to use the Canadian dollar as its presentation currency. The functional currency of the Company's foreign subsidiaries, Proshred Franchising Corp., Redishred Holdings US Inc. ("RHI") and Redishred Acquisition Inc. ("RAI") is the U.S. dollar, as it is the currency of the primary economic environment in which it operates. These consolidated financial statements have been translated to the Canadian dollar in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates.*

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Foreign currency translation (continued)

For such operations, assets and liabilities are translated into the Company's presentation currency using the closing rate at the date of the statement of financial position. Income and expenses are translated at the average rates for the period (as this is considered a reasonable approximation of actual rates).

Exchange differences arising from the translation of these foreign subsidiaries are recognized in accumulated other comprehensive income and recorded as foreign currency translation gain (loss) within equity. On disposal, such exchange differences are transferred out of this reserve and are recognized in the income statement as part of the gain or loss on sale.

Equipment and amortization

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The cost consists of expenditures directly attributable to the acquisition of the asset including costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Maintenance and repair costs are expensed as incurred, except where they serve to increase the asset's productivity or prolong its useful life. Amortization is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

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

The estimated useful lives and amortization method are reviewed at each fiscal year-end, with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets

Intangible assets are recorded at their fair value at the date of acquisition of the related operating company. Amortization is provided for intangible assets with limited life. For all limited life intangible assets, amortization is provided for on a straight-line basis over their estimated useful lives as follows:

Trademarks and intellectual property	Up to 10 years
Franchise agreements	Up to 10 years
Re-acquired franchise rights	Up to 10 years
ProShred system	Up to 10 years
Customer relationships	Up to 10 years
Computer software	Up to 3 years

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Intangible assets (continued)

The assessment of indefinite life and the useful lives of definite life intangibles is reviewed annually. Changes in useful lives or the useful life from indefinite to finite are made on a prospective basis.

Goodwill

Goodwill is initially measured as the excess of the consideration transferred compared to the Company's share in the net fair value of the acquiree's identifiable assets and liabilities acquired, including the fair value for any contingent consideration. The recoverability of goodwill is assessed annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment of assets

Equipment and definite life intangible assets are assessed at the end of each reporting period whenever there is any indication that such assets may be impaired. An impairment loss is recognized when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount. A CGU represents the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use and fair value less costs to sell, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Goodwill is allocated to CGUs of the acquisition that gave rise to the goodwill for the purposes of impairment testing. Impairment of goodwill is tested at a level where goodwill is monitored for internal management purposes. Therefore, goodwill may be assessed for impairment at the level of either an individual CGU or a group of CGUs which are expected to benefit from the synergies of the combination. The carrying amount of a CGU is compared to its recoverable amount, which is the higher of its value-in-use or fair value less costs to sell, to determine if an impairment exists. Impairment losses for goodwill are not reversed in future periods. Goodwill is carried at cost less accumulated impairment losses, if any.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. 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.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Business Combinations

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair value at the acquisition date except for noncurrent assets that are classified as held for sale in accordance with IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations,* which are recognized and measured at fair value less cost to sell.

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.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments such as options and warrants. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. 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 assets and liabilities

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Transaction costs in respect of an asset or liability not recorded at fair value through net earnings are added to the initial carrying amount. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis.

i) Loans and receivables

Financial assets that are non-derivative with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. These instruments are accounted for at amortized cost using the effective interest rate method. The Company has classified cash, accounts receivable and notes receivable as loans and receivables.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Financial assets and liabilities (continued)

ii) Other financial liabilities

Financial liabilities not classified as fair value through net earnings are accounted at amortized cost using the effective interest rate method. Long-term debt, notes payable, accounts payable and accrued liabilities have been designated as a financial liability measured at amortized cost.

Use of estimates and judgements

The preparation of financial statements 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 unaudited interim consolidated financial statements 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 of assets

A CGU to which goodwill has been allocated to is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. The determination of the recoverable amount of a CGU (or group of CGUs) to which goodwill is allocated 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.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Use of estimates and judgements (continued)

ii) Impairment of assets (continued)

Key assumptions on which management has based its determination of fair value less costs to sell and value-in-use include estimated growth rates, weighted average cost of capital and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment. Likewise, whenever long lived assets are tested for impairment, the determination of the assets' recoverable amount involves the use of estimates by management and can have a material impact on the respective values and ultimately the amount of any impairment. Refer to note 12 for estimates and assumptions made.

iii) Income taxes

The Company, including its subsidiaries, operates and earns income in multiple countries and is subject to changing tax laws in multiple jurisdictions within these countries. Significant judgements are necessary in determining income tax liabilities. Although management believes that it has made reasonable estimates about the final outcome of tax uncertainties, no assurance can be given that the final outcome of these tax matters will be consistent with what is reflected in the historical income tax provisions. Such differences could have an effect on the income tax liabilities and deferred tax liabilities in the period in which such determinations are made. At each balance sheet date, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets and liabilities. This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax liabilities could be materially affected if changes in current tax regulations are enacted. Refer to note 14 for estimates and assumptions used.

iv) Legal contingencies

The Company, including the operating subsidiaries, are parties to litigation with three franchisees. The outcome of this matter may have a material effect on the Company's consolidated financial position, results of operations or cash flows. Management regularly analyzes current information about this matter and provides on-going provisions for the estimate of legal expenses to resolve the matter. External lawyers are used for this assessment. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavourable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. The filing of a suit or formal assertion of a claim or disclosure of any such suit or assertion does not automatically indicate that a provision may be appropriate. Refer to note 16 for assumptions and estimates used.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Use of estimates and judgements (continued)

vi) Useful lives of equipment and intangible assets

Management estimates the useful lives of equipment and definite life intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of these assets for any period are affected by these estimated useful lives. On an annual basis, the Company assesses the useful lives of its equipment and intangible assets with definite lives and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's equipment and definite life intangible assets in the future. Refer to note 8 and 10 for estimates and assumptions used.

Standards, amendments and interpretations not yet adopted or effective

IFRS 9 – Financial Instruments

The International Accounting Standards Board has issued IFRS 9, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Company continues to assess the impact of IFRS 9 on its consolidated statement of income and financial position.

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

IFRS 10 – Consolidation

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Standards, amendments and interpretations not yet adopted or effective (continued)

IFRS 11 - Joint Arrangements

IFRS 11 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.

IFRS 12 – Disclosure of Interests in Other Entities

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

IFRS 13 - Fair Value Measurement

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

Amendments to Other Standards

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

4 Transition to IFRS

The Company's unaudited interim consolidated financial statements for the three months ended March 31, 2011 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IFRS 1 and IAS 34. IFRS 1 requires that comparative financial information be provided for the first date at which the Company has applied IFRS, which was January 1, 2010 ("transition date"). In accordance with IFRS 1, the Company has also retrospectively applied all published IFRS standards effective as of December 31, 2011 and applied certain optional exemptions and mandatory exceptions as applicable for first time IFRS adopters.

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

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

(a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with 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 from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to its transition date. The Company has elected to adopt IFRS 3 (revised) prospectively and has not restated its business combinations prior to its transition date. Accordingly, all business combinations that occurred prior to January 1, 2010 have not been restated.

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.

Share-based payment transactions - The company has elected to apply IFRS 2, *Share-based payments,* to equity instruments that have not vested by the transition date.

(b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements 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.

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive loss for prior periods. The following is the reconciliation of the company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date of January 1, 2010, March 31, 2010 and December 31, 2010:

	Notes	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Total equity under Canadian GAAP		**$ 4,088,948**	**$ 4,932,874**	**$ 5,293,534**
Impairment of assets	A	(3,150,000)	(3,150,000)	(3,150,000)
Depreciation	F	389,809	97,574	-
Deferred taxes	B	437,496	467,861	477,983
Business combinations	C	(50,768)	-	-
Total adjustments to equity		(2,373,463)	(2,584,565)	(2,672,017)
Total equity under IFRS		**1,715,485**	**2,348,309**	**2,621,517**

The following is the reconciliation of the Company's comprehensive loss reported in accordance with Canadian GAAP to its comprehensive loss in accordance with IFRS for the three months ended March 31, 2010 and December 31, 2010:

	Notes	For the year ended December 31, 2010	For the three months ended March 31, 2010
Comprehensive loss as reported under Canadian GAAP		**$ (1,291,808)**	**$ (363,935)**
Depreciation	F	389,809	97,574
Deferred taxes	B	(40,487)	(10,122)
Business combinations	C	(50,768)	-
Share-based payments	D	28,322	7,081
Total adjustments to comprehensive loss		326,876	94,533
Comprehensive loss as reported under IFRS		**(964,932)**	**(269,402)**

4 Transition to IFRS (continued)

Reconciliations of Canadian GAAP to IFRS (continued)

The following table highlights the changes to the deferred income tax liability:

	December 31, 2010	January 1, 2010
	$	$
Deferred Income Tax Liability – Canadian GAAP	**(533,000)**	**(646,000)**
Changes to accounting values	438,000	478,000
Deferred Income Tax Liability – IFRS	**(95,000)**	**(168,000)**

Notes to the reconciliations

A) Impairment of assets

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

The Company assessed its impairment indicators at January 1, 2010 and December 31, 2010 and determined that there was an indication of impairment to warrant an impairment analysis to be performed. As a result of the impairment review, the recoverable amount of certain CGU's was less than their carrying amounts and the Company recorded an impairment loss of $3,150,000 at January 1, 2010. The impairment loss was allocated to reduce the carrying value of the assets on a pro rata basis based on the carrying amount of each asset in each respective CGU. As a result of the impairment loss recorded at January 1, 2010, the asset's amortization amounts for fiscal 2010 were impacted and reduced accordingly, to reflect the lower carrying value. Further discussion, with respect to the significant estimates made in the calculation of the impairments, are included in note 12.

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

Notes to the reconciliations (continued)

B) Deferred tax liability

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

C) Business combinations

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

D) Share-based payments

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

E) Cumulative translation differences

Under IFRS 1, the Company elected to set the cumulative translation amount of $141,621 under Canadian GAAP to zero upon transition to IFRS. This has been reflected as a reclassification between Accumulative Other Comprehensive Income and deficit and thus does not affect reported total equity.

F) Depreciation

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

(expressed in Canadian dollars)

4 Transition to IFRS (continued)

Notes to the reconciliations (continued)

G) Adjustments to the Statements of Cash Flows

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

5 Corporate operating expenses

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

For the three months ended,	March 31, 2011	March 31, 2010
	$	$
Shredding expenses	84,209	–
Employee benefit expense	154,512	–
Office and administration expense	80,757	–
Depreciation & amortization – tangible assets	29,783	–
Depreciation & amortization – intangible assets	39,530	–
Total corporate operating expenses	388,791	–

6 Selling, general and administrative expenses

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

For the three months ended,	March 31, 2011	March 31, 2010
	$	$
Employee benefit expense	218,568	211,569
Professional fees	98,481	37,410
Corporate administration	140,906	101,582
Depreciation & amortization – tangible assets	4,727	10,047
Depreciation & amortization – intangible assets	45,822	99,353
Foreign exchange loss	76,952	700
Total selling, general and administrative expenses	585,456	460,661

(expressed in Canadian dollars)

7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees, are guaranteed by the respective owners of the franchises, bear interest rates ranging from 5.25% to 6.25% per annum with monthly blended payments of principal and interest ranging from US$526 to US$1,797, commenced between dates ranging from November 1, 2009 to October 1, 2010 and mature between dates ranging from October 1, 2011 to March 13, 2013. The amounts receivable as at January 1, 2010, December 31, 2010 and March 31, 2011 are as follows:

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Principal	180,786	194,670	207,559
Less: Allowance for impairment	65,980	52,787	43,333
Less: Current portion	27,769	33,178	24,445
	87,037	108,705	139,781

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

Notes receivable from franchisees past due but not impaired comprise:

	Up to 30 days $	Up to 60 days $	60 days or more $	Total $
At March 31, 2011	2,756	2,733	61,885	67,374
At December 31, 2010	2,759	2,736	48,002	53,497
At January 1, 2010	2,618	2,596	24,785	29,999

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

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

	For the three months ended March 31, 2011 $	For the year ended December 31, 2010 $
Opening balance	52,787	43,333
Additions	13,193	9,454
Unused and reversed	–	–
Utilized	–	–
Closing balance	**65,980**	**52,787**

(expressed in Canadian dollars)

8 Equipment

Cost	Computer Equipment	Furniture & Fixtures	Bins & Shredding containers	Shredding vehicles-chassis	Shredding vehicles – box	Baling Equipment	Vehicles	Total
As at January 1, 2010	70,011	29,707	-	-	-	-	-	99,718
Additions	6,608	-	11,145	139,259	305,710	-	-	462,722
Acquisitions	6,500	5,500	19,750	74,000	159,000	6,356	-	271,104
Foreign exchange	-	-	(42)	(320)	(697)	-	-	(1,059)
As at December 31, 2010	83,119	35,207	30,853	212,939	464,013	6,356	-	832,485
Additions	-	-	6,886	-	-	-	6,700	13,586
Foreign exchange	-	-	(1,049)	(5,609)	(10,547)	(177)	(186)	(17,572)
As at March 31, 2011	83,119	35,207	36,690	207,330	453,466	6,179	6,514	828,499

Accumulated Depreciation	Computer Equipment	Furniture & Fixtures	Bins & Shredding containers	Shredding vehicles-chassis	Shredding vehicles - box	Baling Equipment	Vehicles	Total
As at January 1, 2010	66,989	21,823	-	-	-	-	-	88,812
Depreciation	6,056	8,588	2,449	19,039	44,739	1,589	-	82,460
Foreign exchange	-	-	-	(29)	(67)	-	-	(96)
As at December 31, 2010	73,045	30,411	2,449	19,010	44,672	1,589	-	171,176
Depreciation	1,638	458	1,551	9,268	18,869	794	558	33,136
Foreign exchange	-	-	(56)	(393)	(883)	(33)	(8)	(1,373)
As at March 31, 2011	74,683	30,869	3,944	27,885	62,658	2,350	550	202,939
Net book value								
As at December 31, 2010	10,074	4,796	28,404	193,929	419,341	4,767	-	661,311
As at March 31, 2011	8,436	4,338	32,746	179,445	390,808	3,829	5,964	625,564

The Company purchased bins and shredding containers during the three months ended March 31, 2011. During the Company's assessment of useful lives and amortization methods, it was determined that a better estimate of the useful lives of newer shredding vehicles is 10 years rather than 5 years. This change in estimate has been accounted for on a prospective basis resulting in an $11,000 decrease in depreciation expense taken during the three months ended March 31, 2011. The foreign currency translation is a result of the translation of corporate equipment from US dollar to Canadian dollar at December 31, 2010 and March 31, 2011.

9 Deferred financing charges

Effective November 27, 2009, the Company arranged a $4 million revolving line of credit facility with a five-year term (see note 15). Costs associated with this facility of $110,431, including warrants issued (see note 13 (e)), are being charged to expenses over the five year term of the facility.

(expressed in Canadian dollars)

10 Intangible assets

Cost	Franchise agreements	Proshred system	Computer software	Trademarks and intellectual property	Reacquired franchise rights	Customer lists	Total
As at January 1, 2010	1,205,592	428,196	316,244	732,273	-	-	2,682,305
Additions	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	530,000	275,000	805,000
Foreign exchange	(124,872)	-	-	-	(795)	(412)	(126,079)
As at December 31, 2010	1,080,720	428,196	316,244	732,273	529,205	274,588	3,361,226
Additions	-	-	-	-	-	-	-
Foreign exchange	(30,044)	-	-	-	(13,454)	(7,258)	(50,756)
As at March 31, 2011	1,050,676	428,196	316,244	732,273	515,751	267,330	3,310,470

Accumulated Depreciation	Franchise agreements	Proshred system	Computer software	Trademarks and intellectual property	Reacquired franchise rights	Customer lists	Total
As at January 1, 2010	528,694	179,300	263,600	306,631	-	-	1,278,225
Depreciation	124,504	42,820	52,644	73,221	28,571	4,746	326,505
Foreign exchange	(25,270)	-	-	-	(244)	145	(25,369)
As at December 31, 2010	627,928	222,120	316,244	379,852	28,327	4,891	1,579,361
Depreciation	15,895	10,705	-	18,308	33,214	6,873	84,995
Foreign exchange	(19,660)	-	-	-	(1,711)	(327)	(21,698)
As at March 31, 2011	624,163	232,825	316,244	398,160	59,830	11,437	1,642,658
Net book value							
As at December 31, 2010	452,792	206,076	-	352,421	500,878	269,697	1,781,865
As at March 31, 2011	426,513	195,371	-	334,113	455,921	255,893	1,667,812

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

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

(expressed in Canadian dollars)

11 Goodwill

The following table presents goodwill for the year ended December 31, 2010 and the quarter ended March 31, 2011:

	For the three months ended March 31, 2011	For the year ended December 31, 2010
	$	$
Opening balance	**1,120,167**	–
Acquisitions	–	1,113,539
Foreign currency translation	(37,584)	6,628
Closing balance	**1,082,583**	**1,120,167**

12 Impairment of goodwill and long-lived assets

Impairment of equipment and definite life intangible assets

The Company performs an impairment test when there is an indication of impairment, which includes indicators such as when actual sales are less than budgeted, profits are less than prior years' profits, and when significant events and circumstances indicate that the carrying amount may not be recoverable. At January 1, 2010, December 31, 2010 and March 31, 2011 indicators of impairment were identified and impairment tests were performed to determine whether the CGU's carrying values were recoverable.

Franchising and licensing

The Company has identified 15 CGU's, each comprising a franchise location and has completed a two stage impairment test. A portion of the Company's corporate assets relate to each CGU under review based on the number of current franchisees in relation to the total number of franchisees the Company is expected to establish in the future. The corporate assets consist of computer equipment, furniture, computer software, the Proshred system, trademarks and intellectual property. Under the stage one impairment test, a portion of the carrying amounts of these corporate assets have been allocated to each CGU based on the original allocations made during the valuation of the franchise agreements in 2008, upon their acquisition.

The recoverable amount of each CGU has been determined based on a value-in-use calculation, as this was determined to be higher than fair value less costs to sell under the stage one impairment test. The value-in-use calculation uses cash flow projections based on financial budgets approved by management covering the remaining useful life of the franchise agreements. The pre-discount rates used are between 30 and 33 percent.

(expressed in Canadian dollars)

12 Impairment of goodwill and long-lived assets (continued)

Management believes that an 8 year cash flow period is reasonable in light of the contractual terms of the franchise agreements as this is consistent with the assessed remaining useful life of the franchise agreements as originally determined.

The Company then performed the second stage of the impairment test by aggregating the total corporate assets, allocated and unallocated, and assessing whether an impairment exists at a company-wide level. The recoverable amount was determined using a fair value less costs to sell calculation, as this was determined to be higher than the value-in use. The fair value less costs to sell calculation uses cash flow projections based on financial budgets approved by management for a period of 6 years.

The key assumptions used in the calculations include:

i) Under the stage one impairment test, revenue growth of each franchise, which reflect the past experience of each location. Management has used growth rate ranges of 5% to 50% based on prior results of existing franchisees and the franchisees time in the system. During the first five years of a franchisee's operation, higher growth rates are typically achieved. Under the stage two impairment test, a perpetual growth rate of 2.5% is used and does not exceed the long-term average growth rates projected for the document destruction industry.

ii) Under the stage one impairment test, pre-discount rates between 30 and 33 percent were used and reflect the risks specific to each relevant CGU depending on factors such as period of establishment in the respective market, nature of customer base and degree of competition. Under the stage two impairment test, a discount rate of 20 percent was used to reflect the risks specific to the company as a whole.

iii) Cash flows used to determine cash flows from franchising are based on the current royalty rate charged to each franchise.

iv) Under the stage two impairment test, the Company forecast a growth of 4 to 8 new franchise locations per year, up to a total of 45 franchisees.

Based on sensitivity analysis, a reasonable possible change in assumptions would cause the impairment loss to increase or decrease by a range of 20% to 30%.

An impairment loss of $3,150,000 arose as at January 1, 2010, which was allocated to each asset on a pro rata basis based on the carrying amount of each asset. At December 31, 2010 and March 31, 2011, the recoverable amount of each CGU was in excess of its carrying value.

(expressed in Canadian dollars)

12 Impairment of goodwill and long-lived assets (continued)

Corporate locations

The Company has identified three CGU's represented by each corporate location comprising Syracuse, Albany and Milwaukee. Under the stage one impairment test, the recoverable amount of these CGU's has been determined based on a value-in-use calculation, as this was determined to be higher than fair value less costs to sell. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period including growth rates in the range of 3% to 18% and a perpetual growth rate of 2.5%. Revenue growth was determined based on the Company's internal budget and considered past experience, and economic, industry and market trends. The growth rate does not exceed the long-term average growth rates projected for the document destruction industry.

The key assumptions used in the calculations include:

i) Budgeted operating margins which were determined using average operating margins achieved in the periods immediately before the budget period. Management believes the operating margins are reasonably achievable.

ii) Pre-discount rates between 24 and 34 percent were used and reflect the risks specific to each CGU depending on factors such as period of establishment in the respective market, nature of customer base and degree of competition.

At December 31, 2010 and March 31, 2011, the recoverable amount of each CGU was in excess of its carrying value. The excess ranged from 20% to 190% of the carrying amount of the applicable CGU. Based on sensitivity analysis, no reasonable possible change in assumptions would cause the carrying amount of any CGU to exceed its recoverable amount.

Goodwill

The Company performed its annual test for goodwill impairment in the fourth quarter of 2010 in accordance with its policy described in note 3. The estimated recoverable amounts exceeded their carrying values and as a result, no goodwill impairment was recorded. The Company has 18 CGU's, of which 3 include goodwill. For the purposes of impairment testing, goodwill acquired in the Company's business combinations is allocated to CGU's that are expected to benefit from the synergies of the combination.

The carrying value of goodwill for each CGU is identified as follows:

Cash Generating Unit	December 31, 2010 $
Syracuse	129,987
Albany	98,520
Milwaukee	891,660
Total goodwill	**1,120,167**

(expressed in Canadian dollars)

13 Capital stock

a) Authorized

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

b) Issued and fully paid

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

	Common stock		Warrants		
	Number	**$**	**Number**	**$**	**Total $**
Balance, December 31, 2009, 2010 and March 31, 2011	28,884,658	8,297,602	4,000,000	288,206	8,585,808

c) Weighted average common shares

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

d) Stock options

For the three months ended March 31, 2011, the Company has 1,592,500 options outstanding (December 31, 2010 – 1,592,500) and a weighted average exercise price of $0.26 (December 31, 2010 – 1,592,500). There have been no options granted during the three months ended March 31, 2011 (March 31, 2010 – nil). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $2,097 (March 31, 2010 - $3,276).

e) Warrants

The Company issued two tranches of warrants in 2009. The first tranche was issued in connection with the private placement and the second relates to the line of credit obtained. In connection with the line of credit, 1,000,000 warrants were issued on April 28, 2010 when the line of credit was first drawn upon in accordance with the line of credit agreement. The fair value of these warrants has been recorded as deferred finance charges and is being amortized into income over the term of the facility and is also subject to a two year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the consolidated statements of cash flows. Tranches 1 and 2 of warrants expire on November 27, 2014 and December 23, 2014, respectively.

(expressed in Canadian dollars)

14 Income taxes

Reconciliation of total tax recovery

The effective rate on the Company's earnings before income tax differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	Three months ended March 31 2011	2010
	$	$
Loss before income taxes	(330,908)	(217,110)
Income tax rate	31%	31%
Expected income tax recovery based on above rates	(102,000)	(67,000)
Other non-deductible expenses	20,000	10,000
Unrecognized deductible temporary differences & carry-forward amounts	87,000	75,000
Effect on changing income tax rates and other	-	(12,000)
Income Tax Recovery	(5,000)	(6,000)

Deferred tax

Components of the net deferred income tax liability are as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Deferred Income Tax Liability:			
- Intangible Assets	(118,000)	(123,000)	(182,000)
- Equipment	(23,000)	(23,000)	-
Deferred Income Tax Asset:			
- Other	51,000	51,000	14,000
Net Deferred Income Tax Liability	(90,000)	(95,000)	(168,000)

(expressed in Canadian dollars)

14 Income taxes (continued)

The following reflects the balance of temporary differences for which no deferred income tax asset has been recognized:

	March 31, 2011	December 31, 2010	January 1, 2010
Non-capital losses	5,220,000	4,892,000	3,998,000
Intangible Assets	1,642,000	1,652,000	1,692,000
Tax Deductible Share Issue Costs	257,000	270,000	322,000

15 Long-term debt

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Line of credit	2,790,000	2,790,000	–

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

16 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, beginning in 2010, the Company leases facilities in Albany, which expired on March 31, 2011, Syracuse, which expires on August 31, 2015 and Milwaukee, which expires on May 31, 2011. Certain contracts include renewal options for various periods of time. For the quarter ended March 31, 2011, the Company recognized $31,257 (March 31, 2010 - $21,568) in lease payments as an expense included in general, administrative and marketing and corporate store costs. Future minimum lease payments for the Company are as follows:

	$
Year ending December 31, 2011	136,866
2012	180,116
2013	107,866
2014	11,888
2015	4,953

(expressed in Canadian dollars)

16 Commitments and contingency (continued)

Contingency

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

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

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

17 Financial risk management

The Company has various financial assets that consist of: cash, accounts receivable and notes receivable from franchisees. The Company's financial liabilities include accounts payable, accrued liabilities, notes payable and long-term debt.

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Interest rate risk

The Company's cash earns interest at prevailing and fluctuating market rates. The Company manages its exposure to interest rate risk through fixed rate lending to franchisees. 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.

(expressed in Canadian dollars)

17 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 from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and all existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2011, 6 franchisees accounted for 42% of the accounts receivable balance (March 31, 2010 – 3 franchises accounted for 32%). For the quarter ended March 31, 2011, 3 franchisees accounted for 29% of the Company's revenues (March 31, 2010 – 32%). As of March 31, 2011, 22% of accounts receivable was over 90 days old and related to one franchise (March 31, 2010 – 30% of accounts receivable was over 90 days old and related to two franchises).

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

	For the three months ended March 31, 2011	For the year ended December 31, 2010
	$	$
Opening balance	40,762	–
Additions	–	40,823
Unused and reversed	–	–
Utilized	–	–
Foreign exchange	(1,073)	(61)
Closing balance	**39,689**	**40,762**

Receivables from shredding customers

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new customers are required to make payments for services by way of preapproved credit card, and credit is extended only after a credit assessment is conducted. In addition, the receivable balances with customers are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. At March 31, 2011, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2011, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2011, 5% of accounts receivable in this category was over 90 days old. The Company has not recorded an allowance for credit losses from accounts receivable from shredding customers as the Company's exposure to bad debt is not significant.

(expressed in Canadian dollars)

17 Financial risk management (continued)

Currency risk

The Company incurs revenue primarily in US currency and both expenses in US and Canadian currency and as such, is subject to fluctuations as a result of foreign exchange rate variation. The Company manages its exposure to currency risk by billing for its services in US currency and in the underlying currency related to the expenditure.

The Company's principal operations during the year were located in the United States. The results of these operations have been translated into Canadian dollars at an average rate for the period of $1USD = $0.9861CAD (2010- $1USD = $1.0415CAD). Assets and liabilities have been translated using the exchange rate at the date of the statement of financial position of $1USD = $0.9722CAD (2010- $1USD = $1.0192CAD).

The following financial instruments denominated in US funds have been translated at March 31, 2011, at an exchange rate of 0.9722 (December 31, 2010 - 0.9985):

	March 31, 2011 $	December 31, 2010 $
Cash	489,797	463,591
Accounts receivable	381,467	214,494
Prepaid expenses	57,051	32,304
Notes receivable from franchisees	185,956	142,096
Accounts payable and accrued liabilities	(378,344)	(285,345)

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

At March 31, 2011, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the US dollar would have resulted in approximately $16,900 increase (decrease) in the income before taxes for the year.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due while maintaining compliance with all financial covenants. The accounts payable and accrued liabilities and notes payable of $636,454 at March 31, 2011 (December 31, 2010 - $641,442), are due to be settled within one year from the balance sheet date.

The Company also has cash of $771,004 at March 31, 2011 and access to a $4 million line of credit, of which $2.79 million has been utilized at March 31, 2011, to be used for acquisitions as well as general corporate purposes. The line of credit is repayable on November 27, 2014 and interest payments are due semi-annually.

(expressed in Canadian dollars)

17 Financial risk management (continued)

Fair value of financial instruments

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

These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at March 31, 2011, amounted to $114,806 (December 31, 2010 - $133,187) with fair value estimated to amount to $109,002 (December 31, 2010 - $121,008), respectively.

Carrying value of financial instruments

	March 31, 2011 $	December 31, 2010 $
Financial assets designated at fair value through profit or loss	-	-
Loans and receivables measured at amortized cost	1,438,578	1,555,385
Financial liabilities measured at amortized cost	(3,426,454)	(3,403,130)

18 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.

(expressed in Canadian dollars)

19 Segmented information

As of April 30, 2010, the Company operates two reportable operating segments, (1) the granting and managing of shredding business franchises under the "ProShred" trademark (Franchising operations), and (2) the operation of corporately owned shredding businesses (Corporate operations).

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

	Franchising and licensing		**Corporate locations**		**Total**	
	March 31, 2011 $	**December 31, 2010 $**	**March 31, 2011 $**	**December 31, 2010 $**	**March 31, 2011 $**	**December 31, 2010 $**
ASSETS						
Current assets						
Cash	586,733	824,269	184,271	164,323	**771,004**	**988,592**
Accounts receivable	343,862	282,064	208,906	132,846	**552,768**	**414,910**
Prepaid expenses	36,681	12,598	32,172	32,256	**68,853**	**44,854**
Notes receivable from franchisees	27,769	33,178	-	-	**27,769**	**33,178**
Income tax recoverable	9,946	-	-	-	**9,946**	**-**
Total current assets	**1,004,991**	**1,152,109**	**425,349**	**329,425**	**1,430,340**	**1,481,534**
Non-current assets						
Notes receivable from franchisees	87,037	108,705	-	-	**87,037**	**108,705**
Equipment	4,574	5,399	620,990	655,912	**625,564**	**661,311**
Deferred financing charges	82,824	88,345	-	-	**82,824**	**88,345**
Intangible assets	957,017	1,011,392	710,795	770,473	**1,667,812**	**1,781,865**
Goodwill	-	-	1,082,583	1,120,167	**1,082,583**	**1,120,167**
Total assets	**2,136,443**	**2,365,950**	**2,839,717**	**2,875,977**	**4,976,160**	**5,241,927**
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	292,841	413,062	219,080	100,497	**511,921**	**513,559**
Notes payable	-	-	124,533	127,883	**124,533**	**127,883**
Total current liabilities	**292,841**	**413,062**	**343,613**	**228,380**	**636,454**	**641,442**
Non-current liabilities						
Long-term debt	-	-	2,790,000	2,790,000	**2,790,000**	**2,790,000**
Deferred tax liability	90,000	95,000	-	-	**90,000**	**95,000**
Total liabilities	**382,841**	**508,062**	**3,133,613**	**3,018,380**	**3,516,454**	**3,526,442**

(expressed in Canadian dollars)

19 Segmented information (continued)

The Company purchased $13,208 in capital expenditures relating to its' corporate operations during the three months ended March 31, 2011 (December 31, 2010- $468,941). The Company did not have any capital expenditures related to its franchising operations for the three months ended March 31, 2011 (December 31, 2010- $6,608).

Geographic information is as follows:

	March 31, 2011 $	December 31, 2010 $
Canada		
Equipment	4,574	5,399
Deferred financing charges	82,824	88,345
Intangible assets	529,478	558,491
United States		
Notes receivable from franchisees	114,806	141,883
Equipment	620,990	655,912
Intangible assets	1,138,334	1,223,374
Goodwill	1,082,583	1,120,167

Revenue

All revenues were attributed to the United States.

Total net loss by reportable operating segment is as follows:

	For the three months ended March 31, 2011			
	Franchising and licensing $	Corporate locations $	Corporate $	Total $
Revenue	219,428	491,764	–	711,192
Direct costs	–	(319,479)	–	(319,479)
Corporate overhead	(305,493)	(72,975)	(79,486)	(457,954)
Depreciation and amortization	(50,549)	(69,313)	–	(119,862)
Foreign currency loss, net	–	–	(76,952)	(76,952)
Interest expense	–	(68,795)	–	(68,795)
Interest income	942	–	–	942
Recovery of income taxes	5,000	–	–	5,000
Net income (loss)	(130,672)	(38,798)	(156,438)	(325,908)

For the period ending March 31, 2010, the Company did not own or operate corporate locations. All revenues were denominated in US dollars.

(expressed in Canadian dollars)

20 Related party transactions

A Director of the Company is the owner of the Tampa, Florida ProShred franchise. Included in accounts and notes receivable at March 31, 2011, is $6,525 (March 31, 2010 - $13,445) due from the Director's franchise. During the three months ended March 31, 2011, the Company earned royalty and service fee amounts of $22,254 (March 31, 2010 - $18,970).

Included in general, administrative and marketing expense for the three months ended March 31, 2011 are insurance premium amounts of $6,450 (March 31, 2010 - $6,000) paid to Alfred J. Bell & Grant Ltd, a company owned by a Director of the Company.

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

Compensation of Key Management Personnel

Key management personnel compensation is as follows:

	Three months ended March 31, 2011 $	Year ended December 31, 2010 $	Three months ended March 31, 2010 $
Base wages and benefits	163,175	560,348	150,325
Share-based payments	3,070	73,810	3,390
Total	166,245	634,158	153,715

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

21 Subsequent Event

On May 16, 2011, the Company announced that it had entered into an agreement with a new franchisee to operate a Proshred shredding business in Indianapolis, Indiana. Accordingly, the franchise fee associated with this new franchise of $63,455 will be recognized in the second quarter of 2011. The new franchisee commenced operations in Indianapolis in June 2011.