REDISHRED™
CAPITAL CORP.

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

May 27, 2010

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2010.

RediShred Capital Corp.

Unaudited Consolidated Balance Sheets

As at March 31, 2010 and December 31, 2009

	March 31, 2010	December 31, 2009
Assets		
Current Assets		
Cash	$ 821,374	$ 1,086,036
Accounts receivable	377,311	321,588
Prepaid expenses and deferred charges	25,553	16,850
Notes receivable from franchisees (note 3)	23,988	24,445
Income taxes recoverable	10,427	11,062
	1,258,653	1,459,981
Notes receivable from franchisees (note 3)	129,176	139,781
Equipment (note 4)	155,327	204,998
Intangible assets (note 6)	4,164,773	4,364,364
Deferred financing charges (note 5)	104,911	110,431
	5,812,840	6,279,555
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	249,966	340,021
	249,966	340,021
Future income tax liability	630,000	646,000
	879,966	986,021
Shareholders' Equity (Deficiency)		
Capital Stock (note 7)	8,585,808	8,585,808
Contributed surplus	211,666	208,391
Accumulated other comprehensive income	83,329	141,621
Deficit	(3,947,929)	(3,642,286)
	4,932,874	5,293,534
	$ 5,812,840	$ 6,279,555

Commitments and contingency (note 9)

RediShred Capital Corp.

Unaudited Consolidated Statements of Operations

For the quarters ended March 31, 2010 and 2009

	For the 3 months ended March 31	
	2010	**2009**
Revenue		
Franchise territory fees	$ -	$ 21,752
Royalty and service fees	242,013	203,707
	242,013	225,459
Operating Expenses		
Salaries	$ 218,649	260,903
General, administrative and marketing	138,993	256,347
	357,642	517,250
Operating loss before the following	(115,629)	(291,791)
Depreciation and amortization	(206,852)	(201,327)
Unrealized foreign currency gain (loss)	(700)	65,100
Interest income	1,538	6,832
Loss before income tax	(321,643)	(421,186)
Income tax expense (recovery)	(16,000)	(23,461)
Net loss for the period	$ (305,643)	$ (397,725)
Loss per share - Basic and diluted	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding	28,884,658	22,884,614

RediShred Capital Corp.

Unaudited Consolidated Statements of Shareholders' Equity and Comprehensive Loss

For the quarters ended March 31, 2010 and 2009

	Capital stock $ (note 8)	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total shareholders' equity $
Balance - December 31, 2008	7,650,565	189,400	503,873	(1,639,243)	6,704,595
Net loss	-	-	-	(397,726)	(397,726)
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	60,074	-	60,074
Comprehensive loss	-	-	-	-	(337,652)
Stock-based compensation	-	10,657	-	-	10,657
Balance - March 31, 2009	7,650,565	200,057	563,947	(2,036,969)	6,377,601
Balance - December 31, 2009	8,585,808	208,391	141,621	(3,642,286)	5,293,534
Net loss				(305,643)	(305,643)
Other comprehensive income:					
Foreign currency translation gain (loss)			(58,292)		(58,292)
Issuance of shares					-
Comprehensive loss					(363,935)
Stock-based compensation		3,275			3,275
Balance - March 31, 2009	8,585,808	211,666	83,329	(3,947,929)	4,932,874

RediShred Capital Corp.
Unaudited Statements of Cash Flows
For the quarters ended March 31, 2010 and 2009

	For the 3 months ended March 31	
	2010	**2009**
Cash provided by (used in)		
Operating activities		
Net loss for the periods	(305,643)	(397,726)
Add Items not affecting cash		
Depreciation and amortization	206,852	201,327
Unrealized foreign currency loss (gain)	(10,361)	(65,100)
Stock-based compensation	3,275	10,657
Future income taxes	(16,000)	(4,013)
	(121,877)	(254,855)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(55,723)	(21,577)
Decrease (increase) in prepaid expenses and deferred charges	(8,703)	57,260
Decrease (increase) in deposits	-	29,778
Increase (decrease) in accounts payable and accrued liabilities	(90,055)	(125,555)
Increase (decrease) in taxes payable	635	(81,062)
	(275,723)	(396,011)
Financing activities		
	-	-
Investing Activities		
Increase in notes receivable from franchisees	-	(21,868)
Collection of notes receivable from franchisees	11,061	21,893
	11,061	25
Effect of foreign exchange rate changes on cash	(10,619)	19,797
Net change in cash for the period	(254,043)	(415,783)
Cash - Beginning of period	1,086,036	1,653,604
Cash - End of period	$ 821,374	$ 1,257,618

1 Nature of operations

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

As of March 31, 2010, Proshred Franchising Corp. ("PFC"), a wholly owned subsidiary of PSC, has awarded 17 (December 31, 2009 – 17) franchise locations, of which 17 (December 31, 2009 – 17) were in operation.

2 Significant accounting policies

Basis of presentation

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

Recent accounting pronouncements issued and not yet adopted

Business Combinations

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

Early adoption of this section is permitted. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

2 Significant accounting policies (continued)

International financial reporting standards (IFRS)

In February of 2008, the Canadian Accounting Standards Board ratified a strategic plan that will see GAAP converged with, and replaced by, IFRS for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. For the quarter ended March 31, 2011, the Company expects to issue its financial results on an IFRS basis with comparative 2010 data on an IFRS basis. Further, the Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is continuing to assess the level of disclosures required and any necessary system changes to gather and process information.

Use of accounting estimates

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

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

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

Cash

As at March 31, 2010 and 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

2 Significant accounting policies (continued)

Revenue recognition

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

Income taxes

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

Stock-based compensation

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

Foreign currency translation

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

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

2 Significant accounting policies (continued)

As investments in self-sustaining subsidiaries are excluded from the financial instrument disclosure, the Company's exposure on financial instruments to the Canadian/US dollar foreign currency exchange rate is primarily at the parent company. The parent has no significant financial instruments subject to foreign currency risk.

Equipment and amortization

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

Computer equipment	2 years
Computer software	3 years
Furniture and fixtures	3 years

Intangible assets

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

Impairment of long-lived assets

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

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.

2 Significant accounting policies (continued)

Loss per share

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

Financial instruments

i) Financial instruments – recognition and measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

The Company has implemented the following classifications:

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

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

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

2 Significant accounting policies (continued)

ii) Financial instruments – disclosures

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

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

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

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

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

iii) Comprehensive income

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

3 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 June 30, 2006 to April 15, 2009 and maturing between dates ranging from October 1, 2011 to March 15, 2012. The amounts are as follows:

	March 31, 2010 $	December 31, 2009 $
Principal	195,250	207,583
Less: Allowance for impairment	42,086	43,333
Less: Current portion	23,988	24,445
	129,176	139,781

The Company has recorded an allowance for impairment against a note receivable based on the present value of expected future cash flows using a discount rate equal to the effective interest rate on the note receivable prior to the Company ceasing to accrue interest charges. Management was required to use judgment based on assumptions believed to be reasonable in making this estimate. As such, actual losses could differ from the estimate. At March 31, 2010, the gross amount of notes receivable payments 90 days or more past due amounted to $45,850 (December 31, 2009 - $32,628).

The fair value of these notes has been disclosed in note 10.

4 Equipment

	As at March 31, 2010		
	Cost **$**	**Accumulated amortization** **$**	**Net carrying amount** **$**
Computer equipment	77,266	(76,640)	626
Furniture and fixtures	47,610	(25,796)	21,814
Computer software	432,534	(299,647)	132,887
	557,410	(402,083)	155,327

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

The company did not purchase any equipment during the three month period ended March 31, 2010.

5 Deferred financing charges

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

6 Intangible assets

	As at March 31, 2010			
	Cost **$**	**Accumulated amortization** **$**	**Accumulated write-down** **$**	**Net carrying amount** **$**
Franchise agreements	2,800,808	(583,498)	(150,842)	2,066,468
Proshred system	978,000	(203,750)	–	774,250
Trademarks and intellectual property	1,672,500	(348,445)		1,324,055
	5,451,308	(1,135,693)	(150,842)	4,164,773

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

The assets above were acquired as part of the purchase of PSC on March 17, 2008. The Company had no goodwill or other intangible assets prior to March 17, 2008.

The Company’s franchise agreement intangible assets are denominated in US dollars and are subject to foreign currency fluctuations. The Company’s foreign currency translation gains and losses on other intangible assets are a component of accumulated other comprehensive income or loss.

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

The analysis did not show any impairment of other assets relating to the purchase of PSC.

7 Capital stock

a) Authorized

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

b) Issued

The following table summarizes the changes in issued common shares of the Company for the three months ended March 31, 2009 and 2010:

	As at March 31, 2010				
	Common stock		Warrants		
	Number	$	Number	$	Total $
Balance, December 31, 2009	28,884,658	8,297,602	4,000,000	288,206	8,585,808
Units issued for cash	-	-	-	-	-
Warrants issued on line of credit	-	-	-	-	-
Issue Costs	-	-	-	-	-
Balance, March 31, 2010	28,884,658	8,297,602	4,000,000	288,206	8,585,808

	As at March 31, 2009				
	Common stock		Warrants		
	Number	$	Number	$	Total $
Balance, December 31, 2008	22,884,614	7,650,565	-	-	7,650,565
Units issued for cash	-	-	-	-	-
Warrants issued on line of credit	-	-	-	-	-
Issue Costs	-	-	-	-	-
Balance, March 31, 2009	22,884,614	7,650,565	-	-	7,650,565

c) Details of share issuances

On March 17, 2008, the Company issued 9,615,383 common shares for cash of $5,000,002. In addition, 3,269,231 common shares valued at $1,700,000 were issued to Professional Shredding Partnership as part consideration for the purchase of PSC; as at March 31, 2010, 980,769 common shares owned by Professional Shredding Partnership were held in escrow. As at March 31, 2010, a total of 2,779,269 common shares were held in escrow and will be released in future periods in accordance with the Escrow Agreement.

On December 23, 2009, the Company issued 6,000,044 common shares for cash of $900,007. Of the 6,000,044 common shares issued, existing directors and officers of the Company purchased 3,000,044 common shares at a price of $0.15 per common share. The Company also granted warrants to acquire 3,000,000 common shares in connection with the issuance (see note 9(f)), but not to any existing directors and officers. The 6,000,044 common shares have a 4-month holding period from the date of issuance. On the same day, the Company granted warrants in connection with the line of credit, entitling the lender to acquire 1,000,000 common shares (see note 9(f)).

d) Weighted average common shares

The basic weighted average number of common shares outstanding for the quarter ended March 31, 2010 was 28,884,658 (March 31, 2009 - 22,884,614).

e) Stock options

Under the terms of the stock option plan:

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

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

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

iv) Shares to be optioned shall not exceed 2,888,465 (March 31, 2009 – 2,288,462) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

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

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

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

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

e) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		March 31, 2010			December 31, 2009		
Exercise prices $	**Issue date**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**
0.20	Aug 29, 2007	975,000	2.42	975,000	975,000	2.66	975,000
0.52	Mar 17, 2008	352,500	2.96	177,500	352,500	3.21	88,125
0.52	Mar 17, 2008	-	-	-	335,849	0.21	335,849
0.60	May 26, 2008	10,000	3.16	2,500	10,000	3.40	2,500
		1,337,500	2.56	1,155,000	2,050,849	3.01	1,401,474

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

	2010
Expected option life	2.9 years
Risk-free interest rate	3.5%
Expected dividend yield	nil
Expected volatility	50%

There have been no options granted during the period ended March 31, 2010 (2009 - nil).

f) Warrants:

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

	2010			
	Exercise price $	Number of warrants outstanding or to be issued	Remaining contractual life	Assigned value $
Tranche 1	0.25 to 0.45	3,000,000	4.66 years	204,406
Tranche 2	0.25 to 0.45	1,000,000	4.73 years	83,800

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

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

In connection with the line of credit, 1,000,000 warrants will be issued to the lender when the line of credit is first drawn upon. Although not yet issued, these warrants have been recorded in the financial statements as performance by the counterparty is complete. The fair value of these warrants have been recorded as deferred finance charges and are being amortized into income over the term of the facility and are also subject to a 2 year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the statement of cash flows.

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

9 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. Future minimum lease payments for the Company for the years ending December 31st are as follows:

	$
2010	92,226
2011	122,968
2012	122,968
2013	92,226

10 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 and accrued liabilities.

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.

10 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.

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 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 with the result that the Company's exposure to bad debt is not significant. As of March 31, 2010, 3 franchisees accounted for 32% of the accounts receivable balance. For the quarter ended March 31, 2010, 3 franchisees accounted for 32% of the Company's revenues. As of March 31, 2009, 3 franchisees accounted for 32% of the accounts receivable balance, and 35% of revenues.

As of March 31, 2010, 30% of accounts receivable was over 90 days old.

Currency risk

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

The following financial instruments denominated in US funds have been translated at March 31, 2010 at an exchange rate of 1.0192 (December 31, 2008 - 1.0494):

	March 31, 2010	**December 31, 2009**
	$	**$**
Cash	391,262	239,726
Accounts receivable	324,966	246,253
Notes receivable from franchisees	150,279	156,495
Accounts payable and accrued liabilities	(81,314)	(90,251)

Since the Company's foreign subsidiary is considered self-sustaining, 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, 2010, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the US dollar would have resulted in approximately $17,981 increase (decrease) in the income (loss) before taxes or in other comprehensive income (loss) for the year.

10 Financial risk management (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due, while maintaining compliance with all financial covenants. The accounts payable, accrued liabilities and income taxes payable of $249,966 at March 31, 2010 (December 31, 2009 - $340,021) are due to be settled within one year from balance sheet date.

The Company has access to a $4 million line of credit to be used for acquisitions as well as general corporate purposes. This line of credit is secured by a general security agreement over the Company's assets.

Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate their value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees (note 3), are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at March 31, 2010 amounted to $195,250 (December 31, 2009 - $207,559), with fair value estimated to amount to $120,250 (December 31, 2009 - $130,399).

Carrying value of financial instruments

	March 31, 2010 $	December 31, 2009 $
Held-for-trading	821,374	1,086,036
Loans and receivables measured at amortized cost	530,476	485,814
Financial liabilities measured at amortized cost	(249,966)	(340,021)

11 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.

12 Segmented information

The Company operates in a single reportable operating segment, the granting and managing of shredding business franchises under the "Proshred" trademark. Geographic information is as follows:

	March 31, 2010 $	December 31,2009 $
Assets		
Canada		
Cash	422,599	834,467
Accounts receivable	46,106	63,170
Equipment	153,327	204,998
Other intangible assets	2,098,305	2,164,569
United States		
Cash	398,775	251,569
Accounts receivable	331,205	258,418
Notes receivable from franchisees	153,165	164,226
Other intangible assets	2,066,468	2,199,795

Revenue

All revenues occurred in the United States.

13 Related party balances and transactions

Mr. Mark MacMillan, a director of the Company, is the owner of the Tampa Bay, FL Proshred franchise. Included in accounts and notes receivable at March 31, 2010, is $13,445 (March 31, 2009 - $22,918) due from Mr. MacMillan's franchise. During the three months ended March 31, 2010, the Company earned royalty and service fees amounting to $18,970 (March 31, 2009 - $14,544).

Included in general, administrative and marketing expense for the three months ended March 31, 2010 are insurance premiums amounting to $6,000 (March 31, 2009 - $6,000) paid to Alfred J. Bell & Grant Ltd, a company owned by Mr. Phillip Gaunce, a director of the Company.

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

14 Subsequent event

On April 30, 2010, the Company completed the acquisition of the Proshred Syracuse business from its existing franchisee for a purchase price of $317,000, including contingent consideration. The acquisition, the purchase of additional shredding equipment to service the market and start-up working capital was financed through the Company's line of credit. As a result the Company drew $540,000 from the line of credit, leaving the unused portion of the facility at $3,460,000.