

# **RediShred Capital Corp.**

Consolidated Financial Statements  
**December 31, 2008 and 2007**

April 14, 2009

### **Management's responsibility for the Financial Statements**

The accompanying consolidated financial statements of **RediShred Capital Corp.** have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has audited these consolidated financial statements and their report follows.

(signed) "*John Prittie*"  
Chief Executive Officer  
Mississauga, Ontario

(signed) "*Jeffrey Hasham*"  
Chief Financial Officer

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
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April 14, 2009

## **Auditors' Report**

### **To the Shareholders of RediShred Capital Corp.**

We have audited the consolidated balance sheets of **RediShred Capital Corp.** as at December 31, 2008 and 2007 and the consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

### **Chartered Accountants**

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

# RediShred Capital Corp.

## Consolidated Balance Sheets

As at December 31, 2008 and 2007

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|   | 2008<br>\$      | 2007<br>\$      |
|---|-----------------|-----------------|
| <b>Assets</b>                                     |                 |                 |
| <b>Current assets</b>                             |                 |                 |
| Cash  | 1,653,604       | 1,362,252       |
| Accounts receivable                               | 156,455         | 22,487          |
| Prepaid expenses                                  | 74,293          | 77,219          |
| Deposits and other assets (note 4)                | 66,707          | –               |
| Notes receivable from franchisees (note 5)        | 99,078          | –               |
|   | <hr/> 2,050,137 | <hr/> 1,461,958 |
| <b>Notes receivable from franchisees</b> (note 5) | 131,505         | –               |
| <b>Equipment</b> (note 6)                         | 403,682         | –               |
| <b>Intangible assets</b> (note 7)                 | 5,509,909       | –               |
|   | <hr/> 8,095,233 | <hr/> 1,461,958 |
| <b>Liabilities</b>                                |                 |                 |
| <b>Current liabilities</b>                        |                 |                 |
| Accounts payable and accrued liabilities          | 376,666         | 134,137         |
| Income taxes payable                              | 89,972          | –               |
|   | <hr/> 466,638   | <hr/> 134,137   |
| <b>Future income tax liability</b> (note 9)       | 924,000         | –               |
|   | <hr/> 1,390,638 | <hr/> 134,137   |
| <b>Shareholders' Equity</b>                       |                 |                 |
| <b>Capital stock</b> (note 8)                     | 7,650,565       | 1,354,446       |
| <b>Contributed surplus</b>                        | 189,400         | 117,000         |
| <b>Accumulated other comprehensive income</b>     | 503,873         | –               |
| <b>Deficit</b>                                    | (1,639,243)     | (143,625)       |
|   | <hr/> 6,704,595 | <hr/> 1,327,821 |
|   | <hr/> 8,095,233 | <hr/> 1,461,958 |
| <b>Commitments and contingency</b> (note 10)      |                 |                 |

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

### Approved on behalf of the Board of Directors

(signed) "Philip H. Gaunce" Director

(signed) "Robert Richardson" Director

# RediShred Capital Corp.

## Consolidated Statements of Operations

For the years ended December 31, 2008 and 2007

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|   | 2008<br>\$        | 2007<br>\$      |
|---|-------------------|-----------------|
| <b>Revenue</b>  |                   |                 |
| Franchise territory fees  | 378,113           | —               |
| Royalty and service fees  | 597,866           | —               |
|   | <hr/> 975,979     | <hr/> —         |
| <b>Operating expenses</b>   |                   |                 |
| Salaries and stock-based compensation                               | 852,149           | 100,000         |
| General, administrative and marketing                               | 976,797           | 56,398          |
|   | <hr/> 1,828,946   | <hr/> 156,398   |
| <b>Loss before the following</b>                                    | (852,967)         | (156,398)       |
| Amortization  | (623,581)         | —               |
| Interest income   | 39,428            | 18,783          |
| Unrealized foreign currency gain                                    | 53,888            | —               |
| Write-down of goodwill  | (300,386)         | —               |
|   | <hr/> (1,683,618) | <hr/> (137,615) |
| <b>Loss before income taxes</b>                                     | (1,683,618)       | (137,615)       |
| Recovery of income taxes (note 9)                                   | (188,000)         | —               |
|   | <hr/> (1,495,618) | <hr/> (137,615) |
| <b>Net loss for the year</b>  | <hr/> (1,495,618) | <hr/> (137,615) |
| <b>Loss per share – basic and diluted</b>                           | <hr/> (0.07)      | <hr/> (0.03)    |
| <b>Weighted average number of common shares outstanding - basic</b> | <hr/> 20,201,791  | <hr/> 4,478,083 |

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

## RediShred Capital Corp.

### Consolidated Statements of Shareholders' Equity and Comprehensive Income For the years ended December 31, 2008 and 2007

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|                                    | Capital stock<br>\$<br>(note 8) | Contributed<br>surplus<br>\$<br>(note 8) | Accumulated<br>other<br>comprehensive<br>income<br>\$ | Deficit<br>\$ | Total<br>shareholders'<br>equity<br>\$ |
|------------------------------------|---------------------------------|--|---|---------------|--|
| <b>Balance – December 31, 2006</b> | 1                               | –  | –   | (6,010)       | (6,009)                                |
| Net loss and comprehensive loss    | –                               | –  | –   | (137,615)     | (137,615)                              |
| Issue of shares (net of costs)     | 1,354,445                       | –  | –   | –             | 1,354,445                              |
| Stock-based compensation           | –                               | 117,000                                  | –   | –             | 117,000                                |
| <b>Balance – December 31, 2007</b> | 1,354,446                       | 117,000                                  | –   | (143,625)     | 1,327,821                              |
| Net loss                           | –                               | –  | –   | (1,495,618)   | (1,495,618)                            |
| Other comprehensive income         |                                 |  |   |               |  |
| Foreign currency translation gain  | –                               | –  | 503,873   | –             | 503,873                                |
| Comprehensive loss                 |                                 |  |   |               | (991,745)                              |
| Issue of shares (net of costs)     | 6,296,119                       | –  | –   | –             | 6,296,119                              |
| Stock-based compensation           | –                               | 72,400                                   | –   | –             | 72,400                                 |
| <b>Balance – December 31, 2008</b> | 7,650,565                       | 189,400                                  | 503,873   | (1,639,243)   | 6,704,595                              |

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

# RediShred Capital Corp.

## Statements of Cash Flows

For the years ended December 31, 2008 and 2007

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|   | 2008<br>\$  | 2007<br>\$ |
|---|-------------|------------|
| <b>Cash provided by (used in)</b>                               |             |            |
| <b>Operating activities</b>                                     |             |            |
| Net loss for the year   | (1,495,618) | (137,615)  |
| Add items not affecting cash                                    |             |            |
| Amortization  | 623,581     | –          |
| Stock-based compensation  | 19,700      | 100,000    |
| Unrealized foreign currency gain                                | (53,888)    | –          |
| Write-off of goodwill   | 300,386     | –          |
| Future income taxes   | (193,000)   | –          |
|   | <hr/>       | <hr/>      |
|   | (798,839)   | (37,615)   |
| Net change in non-cash working capital balances                 |             |            |
| Decrease (increase) in accounts receivable                      | (107,862)   | (22,487)   |
| Decrease (increase) prepaid expenses                            | 11,714      | (77,219)   |
| Decrease (increase) in deposits and other assets                | (59,299)    | –          |
| Decrease (increase) in notes receivable from franchisees        | 45,284      | –          |
| Increase (decrease) in accounts payable and accrued liabilities | 186,340     | 128,127    |
| Increase (decrease) in income taxes payable                     | (5,414)     | –          |
|   | <hr/>       | <hr/>      |
|   | (728,076)   | (9,194)    |
| <b>Financing activities</b>                                     |             |            |
| Net cash proceeds from issuance of common shares                | 4,648,819   | 1,371,445  |
| <b>Investing activities</b>                                     |             |            |
| Cash paid on acquisition of subsidiary, net of cash acquired    | (3,743,380) | –          |
| Disposition of intangible asset                                 | 100,000     | –          |
| Purchase of capital assets                                      | (101,410)   | –          |
|   | <hr/>       | <hr/>      |
|   | (3,744,790) | –          |
| <b>Effect of foreign exchange rate changes on cash</b>          | <hr/>       | <hr/>      |
|   | 115,399     | –          |
| <b>Net change in cash for the year</b>                          | 291,352     | 1,362,251  |
| <b>Cash – Beginning of year</b>                                 | <hr/>       | <hr/>      |
|   | 1,362,252   | 1          |
| <b>Cash – End of year</b>                                       | <hr/>       | <hr/>      |
|   | 1,653,604   | 1,362,252  |

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

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 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, has been 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, 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.

## 2 Significant accounting policies

### Changes in accounting policies and new accounting pronouncements

Effective January 1, 2008, the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

#### *Section 1400 - General Standards of Financial Statement Presentation*

This Section provides revised guidance related to management’s responsibility to assess and disclose the ability of an entity to continue as a going concern. The implementation of this Section did not affect the general results of the Company.

#### *Section 1535 - Capital Disclosures*

This new standard requires disclosure of the Company’s objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and had no effect on the financial results of the Company (see note 12).

#### *Section 3862 - Financial Instruments – Disclosure and Section 3863 - Financial Instruments – Presentation*

These new standards replace accounting standard 3861 - Financial Instruments – Disclosure and Presentation. Presentation requirements have not changed. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of the financial instruments on the Company’s financial position and performance, including qualitative and quantitative information about the Company’s exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and had no effect on the financial results of the Company (see note 11).



# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 2 Significant accounting policies (continued)

### Recent accounting pronouncements issued and not yet adopted

#### *Section 3064 - Goodwill and Intangible Assets*

This Section replaces Section 3062 - Goodwill and Other Intangible Assets; and Section 3450 - Research and Development Costs. This new Section establishes standards for the recognition, measurement and disclosure of goodwill and other intangible assets. The Company is currently evaluating the impact of this Section on its consolidated financial statements and will begin application of this standard effective January 1, 2009.

#### *Section 1601 - Consolidated Financial Statements*

This Section replaces the former Section 1600 - Consolidated Financial Statements. The Company is currently evaluating the impact of this development on its consolidated financial statements and will begin application of this standard effective January 1, 2011.

#### *International financial reporting standards (IFRS)*

The Canadian Accounting Standards Board recently ratified a strategic plan that will see Canadian generally accepted accounting principles (GAAP) converged with, and replaced by, International Financial Reporting Standards (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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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.

### **Basis of presentation**

These consolidated financial statements are prepared in accordance with GAAP. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Professional Shredding Corporation ("PSC") and Proshred Franchising Corp. ("PFC"). All transactions between the Company and its subsidiaries have been eliminated.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 2 Significant accounting policies (continued)

### Use of accounting estimates

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

- i) Economic useful life of proprietary software system for purposes of calculating depreciation
- ii) The allocation of the Proshred acquisition purchase prices entails various estimates to determine the fair values of, and allocation of purchase prices to, the tangible and intangible assets and liabilities acquired.

Actual results could differ from those estimates.

### Cash

As at December 31, 2008 and 2007, 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.

### 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 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 substantially 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 subsidiary enacted tax rates are included in income tax recovery (expense) in the period that the substantive enactment or enactment occurs. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 2 Significant accounting policies (continued)

### 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 subsidiaries operate autonomously as self-sustaining companies. 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.

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 following annual rates and methods:

|                        |                                       |
|------------------------|---------------------------------------|
| Computer equipment     | over two years, straight-line basis   |
| Computer software      | over three years, straight-line basis |
| Furniture and fixtures | over three years, straight-line basis |

### 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.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 2 Significant accounting policies (continued)

### 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.

### Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the net amount of the fair values assigned to its assets and liabilities and is not subject to amortization. The Company evaluates the carrying value of goodwill for potential impairment through an annual review and analysis of fair market value. Goodwill is also evaluated for potential impairment between annual tests if an event or circumstances occur that more likely than not reduces the fair value of a business below its carrying values. Fair market value is determined by use of net present value financial models, which incorporate management's assumptions of future profitability.

### 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 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.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 2 Significant accounting policies (continued)

### 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.

#### ii) 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 currently 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.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 3 Acquisition of Professional Shredding Corporation

On March 17, 2008, the Company completed the purchase of Professional Shredding Corporation by acquiring all of the outstanding shares. The purchase consideration of \$5,443,380 is inclusive of cash consideration paid to the vendor of \$3,600,000, common share consideration (3,269,231 in common shares issued to the vendor valued at \$1,700,000) and \$143,380 in acquisition costs.

The purchase price has been allocated, to the assets acquired (including all identifiable intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of acquisition as follows:

|  | <b>Estimated<br/>fair value<br/>\$</b> |
|--|--|
| <b>Assets acquired</b>                   |  |
| Accounts receivable                      | 16,174                                 |
| Prepaid expenses and sundry              | 7,978                                  |
| Notes receivable from franchisees        | 229,723                                |
| Equipment                                | 30,000                                 |
| Software                                 | 426,000                                |
| Customer list                            | 100,000                                |
| Goodwill                                 | 300,386                                |
| Proshred System                          | 978,000                                |
| Trademarks and intellectual property     | 1,672,500                              |
| Franchise agreements                     | 2,742,000                              |
|  | <hr/>                                  |
| Total assets acquired                    | 6,502,761                              |
| <b>Liabilities assumed</b>               |  |
| Accounts payable and accrued liabilities | (40,994)                               |
| Income taxes payable                     | (78,387)                               |
| Future tax liability                     | (940,000)                              |
|  | <hr/>                                  |
| Total liabilities assumed                | (1,059,381)                            |
|  | <hr/>                                  |
| <b>Net assets acquired</b>               | <b>5,443,380</b>                       |

### 4 Deposits and other assets

Included in deposits and other assets are amounts provided to acquisition targets to secure their business during the due diligence and negotiation phases in the acquisition process. The deposits, upon the closing of a purchase and sale agreement, are applied to the final proceeds delivered to the vendor. A deposit in the amount of \$30,567 is non-refundable in the event a purchase and sale agreement is not finalized. Subsequent to year-end, this non-refundable deposit was forfeited, as the related purchase and sale agreement was not finalized.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 5 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 5.00% to 10.25% per annum with monthly blended payments of principal and interest ranging from US\$1,133 to US\$3,307, commenced between dates ranging from June 30, 2006 to November 1, 2008 and maturing between dates ranging from May 31, 2009 to October 15, 2011. The amounts are as follows:

|                       | <b>December 31,<br/>2008</b> |
|-----------------------|------------------------------|
|                       | <b>\$</b>                    |
| Principal             | 230,583                      |
| Less: Current portion | <u>99,078</u>                |
|                       | <u>131,505</u>               |

Of the notes receivable outstanding at December 31, 2008, \$137,915 were acquired as part of the acquisition of Professional Shredding Corporation on March 17, 2008. There were no notes receivable outstanding as at December 31, 2007. The fair value of these notes has been disclosed in note 11.

## 6 Equipment

|                        | <b>Cost</b>    | <b>Accumulated<br/>amortization</b> | <b>2008<br/>Net carrying<br/>amount</b> |
|------------------------|----------------|-------------------------------------|---|
|                        | <b>\$</b>      | <b>\$</b>                           | <b>\$</b>                               |
| Computer equipment     | 77,266         | (28,355)                            | 48,911                                  |
| Furniture and fixtures | 47,610         | (5,951)                             | 41,659                                  |
| Computer software      | 432,534        | (119,422)                           | 313,112                                 |
|                        | <u>557,410</u> | <u>(153,728)</u>                    | <u>403,682</u>                          |

The assets above, with the exception of \$101,410, were acquired as part of the acquisition of Professional Shredding Corporation on March 17, 2008. Computer equipment, software and furniture and fixtures in the amounts of \$29,471, \$6,534 and \$47,610, respectively, were purchased between March 17, 2008 and December 31, 2008. The Company had no equipment prior to March 17, 2008.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 7 Intangible assets

|   | Cost             | Accumulated<br>amortization | Accumulated<br>write-down | 2008<br>Net carrying<br>amount |
|---|------------------|-----------------------------|---------------------------|--------------------------------|
|   | \$               | \$                          | \$                        | \$                             |
| Goodwill                                | 300,386          | –                           | (300,386)                 | –                              |
| Franchise agreements                    | 3,360,310        | (280,026)                   | –                         | 3,080,284                      |
| Proshred system                         | 978,000          | (81,500)                    | –                         | 896,500                        |
| Trademarks and intellectual<br>property | 1,672,500        | (139,375)                   | –                         | 1,533,125                      |
|   | <u>6,311,196</u> | <u>(500,901)</u>            | <u>(300,386)</u>          | <u>5,509,909</u>               |

The assets above were acquired as part of the purchase of Professional Shredding Corporation on March 17, 2008. The Company had no goodwill or other intangible assets prior to March 17, 2008. As part of the acquisition, a customer list with a fair value of \$100,000 was sold immediately after the acquisition for \$100,000, resulting in no accounting gain or loss.

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.

The goodwill arose on the acquisition of PSC on March 17, 2008. The Company completed its annual impairment testing of goodwill during the fourth quarter of 2008. The Company used a combination of valuation approaches including a market capitalization approach, a multiples approach and a discounted cash flow approach. The analysis indicated that the goodwill associated with the purchase of PSC was impaired. As a result, goodwill was written off in the amount of \$300,386 during the year. The analysis did not show any impairment of other assets relating to the purchase of PSC.

## 8 Capital stock

### a) Authorized

Unlimited number of common shares, without nominal or par value

Unlimited number of preferred shares, without nominal or par value



# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 8 Capital stock (continued)

### b) Issued

The following table summarizes the changes in issued common shares of the Company:

|   | 2008       |              | 2007       |              |
|---|------------|--------------|------------|--------------|
|   | Number     | Amount<br>\$ | Number     | Amount<br>\$ |
| Opening balance                               | 10,000,000 | 1,354,446    | 1          | 1            |
| Shares issued on acquisition<br>of subsidiary | 3,269,231  | 1,700,000    | —          | —            |
| Shares issued for cash                        | 9,615,383  | 5,000,002    | 9,999,999  | 1,499,999    |
| Less: Share issue costs                       | —          | (403,883)    | —          | (145,554)    |
| Closing balance                               | 22,884,614 | 7,650,565    | 10,000,000 | 1,354,446    |

### c) Details of share issuances

On June 15, 2007, the Company issued 4,999,999 common shares for cash of \$499,999. These shares are held in escrow and will be released in future periods in accordance with the Escrow Agreement entered into between the Company, Computershare Investor Services Inc. as escrow agent and certain of the Company's shareholders. Under the Escrow Agreement, 10% of the escrowed common shares have been released from escrow (the "Initial Release") following the issuance of the Exchange Bulletin following closing of the Qualifying Transaction and the final Exchange acceptance of the Qualifying Transaction (the "Final Exchange Bulletin") and an additional 15% were released during the third quarter of 2008. The remaining common shares will be released from escrow, 12 months, 18 months, 24 months, 30 months and 36 months following the initial release. If the Company meets the Exchange's Tier 1 minimum listing requirements either at the time the Final Exchange Bulletin is issued or subsequently, the release of the escrowed Common Shares will be accelerated. An accelerated escrow release will not commence until the Company has made application to the Exchange for listing as a Tier 1 issuer and the Exchange has issued a bulletin that announces the acceptance for listing of the Resulting Issuer on Tier 1 of the Exchange.

On August 10, 2007, the Company issued 500,000 common shares for cash of \$100,000. Of these 500,000 common shares, 236,250 common shares are held in escrow and will be released in future periods in accordance with the Escrow Agreement.

On August 21, 2007, the Company filed a prospectus related to the initial public offering of its common shares, and on August 29, 2007, the Company issued 4,500,000 common shares for gross proceeds of \$900,000. Of these 4,500,000 common shares, 510,000 common shares are held in escrow and will be released in future periods in accordance with the Escrow Agreement. In connection with the initial public offering, the Company issued 270,000 options with a fair value of \$17,000. The fair value of these options is reflected as share issue costs.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 8 Capital stock (continued)

### c) Details of share issuances (continued)

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 Professional Shredding Corporation as part consideration for the purchase of Professional Shredding Corporation; 2,451,923 common shares are held in escrow as at December 31, 2008, and will be released in future periods with the Escrow Agreement. Subsequent to year-end, on March 19, 2009, 1,389,635 common shares were released from escrow.

### d) Weighted average common shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2008, were 20,201,791 (2007 - 4,478,083).

### 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 share 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 2,288,462 (December 31, 2007 – 1,245,000) 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.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

## 8 Capital stock (continued)

### e) Stock options (continued)

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

|                                 | 2008             |                                    | 2007             |                                    |
|---------------------------------|------------------|------------------------------------|------------------|------------------------------------|
|                                 | Number of shares | Weighted average exercise price \$ | Number of shares | Weighted average exercise price \$ |
| Outstanding – Beginning of year | 1,245,000        | 0.20                               | –                | –                                  |
| Granted                         | <u>805,849</u>   | 0.52                               | <u>1,245,000</u> | 0.20                               |
| Outstanding – End of year       | <u>2,050,849</u> | 0.33                               | <u>1,245,000</u> | 0.20                               |

The following table summarizes the stock options outstanding as at December 31:

|                    |              | 2008                          |   |                     | 2007                          |   |                     |
|--------------------|--------------|-------------------------------|---|---------------------|-------------------------------|---|---------------------|
| 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                       | 3.66  | 975,000             | 975,000                       | 4.67  | 975,000             |
| 0.20               | Sept 5, 2007 | 270,000                       | 0.68  | 270,000             | 270,000                       | 1.68  | 270,000             |
| 0.52               | Mar 17, 2008 | 380,000                       | 4.19  | –                   | –                             | –   | –                   |
| 0.52               | Mar 17, 2008 | 335,849                       | 1.21  | 335,849             | –                             | –   | –                   |
| 0.52               | May 26, 2008 | 10,000                        | 4.40  | –                   | –                             | –   | –                   |
| 0.52               | Aug 21, 2008 | <u>80,000</u>                 | 4.64  | –                   | –                             | –   | –                   |
|                    |              | <u>2,050,849</u>              | 3.01  | <u>1,580,849</u>    | <u>1,245,000</u>              | 4.02  | <u>1,245,000</u>    |

# RediShred Capital Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 8 Capital stock (continued)

#### e) Stock options (continued)

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:

|                         | 2008      | 2007      |
|-------------------------|-----------|-----------|
| Expected option life    | 3.7 years | 4.3 years |
| Risk-free interest rate | 3.5%      | 4.0%      |
| Expected dividend yield | nil       | nil       |
| Expected volatility     | 50%       | 50%       |

The weighted average grant-date fair value of options granted during the year was \$0.20 per option (2007 - \$0.09).

### 9 Income taxes

The following table reconciles the expected income taxes payable (recoverable) at the statutory income tax rate to the amounts recognized in the statements of operations for the years ended December 31, 2008 and 2007:

|   | 2008<br>\$  | 2007<br>\$ |
|---|-------------|------------|
| Loss before income taxes                          | (1,683,618) | (137,615)  |
| Income tax rate                                   | 34%         | 38%        |
| Expected income tax recovery based on above rates | (572,000)   | (52,000)   |
| Non-deductible stock option expense               | 7,000       | 38,000     |
| Non-deductible write-off of goodwill              | 102,000     | —          |
| Increase in valuation allowance                   | 310,000     | 60,000     |
| Other and permanent differences                   | (35,000)    | (46,000)   |
| Provision for income taxes                        | (188,000)   | —          |

Provision for (recovery of) income taxes is comprised of:

|                                 | 2008<br>\$ | 2007<br>\$ |
|---------------------------------|------------|------------|
| Current income taxes            | 5,000      | —          |
| Future income taxes             | (503,000)  | (60,000)   |
| Increase in valuation allowance | 310,000    | 60,000     |
|                                 | (188,000)  | —          |

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 9 Income taxes (continued)

The following reflects the components of future income tax assets at December 31, 2008 and 2007:

|  | 2008<br>\$                   | 2007<br>\$           |
|--|------------------------------|----------------------|
| <b>Future tax assets</b>   |                              |                      |
| Non-capital losses carried forward   | 271,000                      | 25,000               |
| Deductible share issue costs   | 112,000                      | 37,000               |
| Other  | 18,000                       | —                    |
|  | <hr/>                        | <hr/>                |
| Valuation allowance  | 401,000<br>(372,000)         | 62,000<br>(62,000)   |
|  | <hr/>                        | <hr/>                |
|  | 29,000                       | —                    |
| <b>Future tax liabilities</b>  |                              |                      |
| Accounting value of equipment and intangible assets in excess of tax value | (953,000)                    | —                    |
|  | <hr/>                        | <hr/>                |
| <b>Net future tax liability</b>  | <hr/> <b>(924,000)</b> <hr/> | <hr/> <b>—</b> <hr/> |

The Company has accumulated losses for Canadian income tax purposes of approximately \$903,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

|                               | \$      |
|-------------------------------|---------|
| Year ending December 31, 2026 | 6,000   |
| 2027                          | 63,000  |
| 2028                          | 834,000 |

The Corporation has undeducted share issuance costs of approximately \$374,000 which will be deducted from Canadian taxable income over the next four years.

## 10 Commitments and contingency

### Commitments

As of August 1, 2008, the Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2013. Future minimum lease payments for the Company are as follows:

|                               | \$      |
|-------------------------------|---------|
| Year ending December 31, 2009 | 84,032  |
| 2010                          | 122,968 |
| 2011                          | 122,968 |
| 2012                          | 122,968 |
| 2013                          | 92,226  |

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 10 Commitments and contingency (continued)

### Contingency

A claim of \$500,000 for wrongful dismissal has been filed against the Company by a former employee of the Company. The Company believes the claim is without merit and the Company will be vigorous in its defence. However, the final outcome the respect to this claim cannot be predicted with certainty and therefore there can be no assurance that its resolution will not have an adverse effect on the Company's consolidated financial position.

## 11 Financial risk management

The Company has various financial assets that consist of: cash, accounts receivable and notes 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.

### Credit risk

In accordance with its investment policy, the Company maintains cash deposits with Schedule 1 Banks. The credit risk on cash is limited because the counter-parties 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 December 31, 2008, 5 customers accounted for 31% of the accounts receivable balance. For the year ended December 31, 2008, 2 customers accounted for 28% of the Company's revenues. In 2007, there were no revenues and associated receivables. All accounts receivable from franchisees are under 30 days in age.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 11 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 the US and in the underlying currency related to the expenditure.

The following financial instruments denominated in US funds have been translated at December 31, 2008 at an exchange rate of 1.223:

|  | <b>December 31,<br/>2008</b> |
|--|------------------------------|
|  | \$                           |
| Cash                                     | 712,846                      |
| Accounts receivable                      | 62,893                       |
| Deposits and prepaids                    | 40,716                       |
| Notes receivable from franchisees        | 188,569                      |
| Accounts payable and accrued liabilities | (170,481)                    |

Since the Company's foreign subsidiary is considered self-sustaining, unrealized foreign exchange fluctuations are recorded in accumulated other comprehensive income and only recorded in net income once realized on liquidation of the subsidiary. There were no foreign denominated balances at December 31, 2007.

### 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 income taxes payable of \$466,638 at December 31, 2008 (2007 - \$134,137) are due to be settled within one year from balance sheet date.

### 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 5), 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 December 31, 2008 amounted to \$230,583 (2007 - \$nil), with fair value estimated to amount to \$219,623.

# RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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## 11 Financial risk management (continued)

### Carrying value of financial instruments

|  | 2008<br>\$ | 2007<br>\$ |
|--|------------|------------|
| Held-for-trading                                 | 1,653,604  | 1,362,252  |
| Loans and receivables measured at amortized cost | 387,038    | 22,487     |
| Financial liabilities measured at amortized cost | (466,638)  | (134,137)  |

## 12 Capital management

The Company defines capital as shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains a conservative capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new share or issue debt securities.

## 13 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:

|                                   | 2008<br>\$ | 2007<br>\$ |
|-----------------------------------|------------|------------|
| <b>Assets</b>                     |            |            |
| <b>Canada</b>                     |            |            |
| Cash                              | 781,936    | 1,362,252  |
| Accounts receivable               | 79,549     | 22,487     |
| Equipment                         | 403,682    | —          |
| Other intangible assets           | 2,429,705  | —          |
| <b>United States</b>              |            |            |
| Cash                              | 871,668    | —          |
| Accounts receivable               | 76,906     | —          |
| Notes receivable from franchisees | 230,583    | —          |
| Other intangible assets           | 3,080,204  | —          |

### Revenue

All revenues occurred in the United States. There were no revenues in 2007.



## **RediShred Capital Corp.**

Notes to Consolidated Financial Statements

**For the years ended December 31, 2008 and 2007**

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### **14 Related party balances and transactions**

Included in accounts receivable at December 31, 2008, is \$1,831 (2007 - \$nil) due to a franchisee indirectly owned by a director of the Company. During the year, the Company earned royalty and service fees amounting to \$45,916 (2007 - \$nil) from a franchisee indirectly owned by a director of the Company.

Included in general, administrative and marketing expense are insurance premiums amounting to \$14,679 (2007 - \$nil) paid to a company owned by a director of the Company.

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

