



Consolidated Financial Statements  
**March 31, 2009**  
(Unaudited – Prepared by Management)

**May 15, 2009**

**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, 2009.**

**RediShred Capital Corp.**  
 Unaudited Consolidated Balance Sheets  
 As at March 31, 2009 and December 31, 2008

	March 31, 2009	December 31, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,257,618	\$ 1,653,604
Accounts receivable	178,032	156,455
Prepaid expenses and deferred charges	17,033	74,293
Deposits and other assets (note 4)	36,929	66,707
Notes receivable from franchisees (note 5)	53,905	99,078
	1,543,518	2,050,137
Notes receivable from franchisees (note 5)	176,653	131,505
Equipment (note 6)	354,011	403,682
Intangible assets (note 7)	5,483,427	5,509,909
	7,557,609	8,095,233
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	251,111	376,666
Income taxes payable	8,910	89,972
	260,021	466,638
Future income tax liability	919,987	924,000
	1,180,008	1,390,638
<b>Shareholders' Equity (Deficiency)</b>		
Capital Stock (note 8)	7,650,565	7,650,565
Contributed surplus	200,057	189,400
Accumulated other comprehensive income	563,947	503,873
Deficit	(2,036,969)	(1,639,243)
	6,377,601	6,704,595
	\$ 7,557,609	\$ 8,095,233
<b>Commitments and contingency (note 9)</b>		

# RediShred Capital Corp.

## Unaudited Consolidated Statements of Operations For the quarters ended March 31, 2009 and 2008

	<i>For the 3 months ended March 31</i>	
	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Franchise territory fees	\$ 21,752	\$ 1,867
Royalty and service fees	203,707	34,700
	<u>225,459</u>	<u>36,567</u>
<b>Operating Expenses</b>		
Salaries	260,903	35,093
General, administrative and marketing	256,347	76,043
	<u>517,250</u>	<u>111,136</u>
<b>Operating loss before the following</b>	(291,792)	(74,568)
Depreciation and amortization	(201,327)	(66,644)
Unrealized foreign currency gain	65,100	
Interest income	6,832	10,960
	<u>(421,187)</u>	<u>(130,253)</u>
<b>Loss before income tax</b>	(421,187)	(130,253)
Income tax expense (recovery)	(23,461)	(122,485)
	<u>(397,726)</u>	<u>(7,768)</u>
<b>Net loss for the period</b>	\$ (397,726)	\$ (7,768)
<b>Loss per share - Basic and diluted</b>	\$ (0.02)	\$ (0.00)
<b>Weighted average number of common shares outstanding</b>	22,884,614	10,529,505

# RediShred Capital Corp.

## Unaudited Consolidated Statements of Shareholders' Equity and Comprehensive Loss For the quarters ended March 31, 2009 and 2008

	Capital stock \$ (note 8)	Contributed surplus \$ (note 8)	Accumulated other comprehensive income \$	Deficit \$	Total shareholders' equity \$
<b>Balance - December 31, 2007</b>	1,354,446	117,000	-	(143,625)	1,327,821
Net loss	-	-	-	(7,768)	(7,768)
<b>Balance - March 31, 2008</b>	1,354,446	117,000	-	(151,393)	1,320,053
Net loss	-	-	-	(1,487,850)	(1,487,850)
Other comprehensive income:					
Foreign currency translation gain	-	-	503,873	-	503,873
Comprehensive loss	-	-	-	-	(983,977)
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
Net loss	-	-	-	(397,726)	(397,726)
Other comprehensive income:					
Foreign currency translation gain	-	-	60,074	-	60,074
Comprehensive loss	-	-	-	-	(337,652)
Stock-based compensation	-	10,657	-	-	10,657
<b>Balance - March 31, 2009</b>	7,650,565	200,057	563,947	(2,036,969)	6,377,601

**RediShred Capital Corp.**  
**Unaudited Statements of Cash Flows**  
**For the quarters ended March 31, 2009 and 2008**

	<i>For the 3 months ended March 31</i>	
	<b>2009</b>	<b>2008</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the periods	\$ (397,726)	\$ (7,768)
Add Items not affecting cash		
Depreciation and amortization	201,327	66,644
Unrealized foreign currency gain	(65,100)	
Stock-based compensation	10,657	-
	(250,841)	58,877
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(21,577)	(165,222)
Decrease (increase) in prepaid expenses and deferred charges	57,260	64,768
Decrease (increase) in deposits	29,778	
Decrease (increase) in notes receivable from franchisees	25	(2,179)
Increase (decrease) in accounts payable and accrued liabilities	(206,617)	73,351
Increase (decrease) in future income tax liability liabilities	(4,013)	(230,822)
	(395,986)	(201,228)
<b>Financing activities</b>		
Net cash proceeds from issuance of common shares	-	4,749,347
<b>Investing Activities</b>		
Cash paid on acquisition of subsidiary, net of cash acquired	-	(3,640,214)
<b>Effect of foreign exchange rate changes on cash</b>	19,797	-
<b>Net change in cash for the period</b>	(415,783)	907,905
<b>Cash - Beginning of period</b>	1,653,604	1,362,252
<b>Cash - End of period</b>	\$ 1,257,618	\$ 2,270,157

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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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, 2009, the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

##### *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. This new standard is effective for the Company's interim and annual financial statements commencing January 1, 2009. The adoption of this section did not have an impact on the Company's financial results.

##### *EIC-173, Credit Risk and the Fair value of Financial Assets and Financial Liabilities*

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 2 Significant accounting policies (continued)

#### Recent accounting pronouncements issued and not yet adopted

##### *Business Combinations*

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new section apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections

##### *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**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, "Interim Financial Statements". Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2008.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 2 Significant accounting policies (continued)

In the opinion of management, these unaudited interim consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as otherwise indicated hereunder, these unaudited interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2008.

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.

#### 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
- 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 March 31, 2009 and 2008, 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.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 2 Significant accounting policies (continued)

#### 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.

#### 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.

# RediShred Capital Corp.

Notes to Unaudited Consolidated Financial Statements  
For the quarters ended March 31, 2009 and 2008

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## 2 Significant accounting policies (continued)

### 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.

### 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.

### 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 Unaudited Consolidated Financial Statements  
For the quarters ended March 31, 2009 and 2008

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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 Unaudited Consolidated Financial Statements  
For the quarters ended March 31, 2009 and 2008

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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 fair value \$</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	<u>2,742,000</u>
Total assets acquired	<u>6,502,761</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	(40,994)
Income taxes payable	(78,387)
Future tax liability	<u>(940,000)</u>
Total liabilities assumed	<u>(1,059,381)</u>
<b>Net assets acquired</b>	<u>5,443,380</u>

## 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 was forfeited during the three month period ended March 31, 2009, as the related purchase and sale agreement was not finalized.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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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\$526.46 to US\$3,307, commenced between dates ranging from June 30, 2006 to April 15, 2009 and maturing between dates ranging from May 31, 2009 to March 15, 2012. The amounts are as follows:

	March 31, 2009	December 31, 2008
	\$	\$
Principal	230,558	230,583
Less: Current portion	<u>53,905</u>	<u>99,078</u>
	<u>176,653</u>	<u>131,505</u>

### 6 Equipment

	<u>As at March 31, 2009</u>		
	Cost	Accumulated	Net carrying
	\$	amortization	amount
		\$	\$
Computer equipment	77,266	(38,013)	39,253
Furniture and fixtures	47,610	(9,919)	37,691
Computer software	432,534	(155,467)	277,067
	<u>557,410</u>	<u>(203,398)</u>	<u>354,011</u>
	<u>As at December 31, 2008</u>		
	Cost	Accumulated	Net carrying
	\$	amortization	amount
		\$	\$
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 company did not purchase any equipment during the three month period ended March 31, 2009.

The assets above, with the exception of \$101,410, were acquired as part of the acquisition of Professional Shredding Corporation on March 17, 2008.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 6 Equipment (continued)

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.

### 7 Intangible assets

	As at March 31, 2009		
	Cost \$	Accumulated amortization \$	Net carrying amount \$
Franchise agreements	3,433,958	(313,893)	3,120,065
Proshred system	978,000	(105,950)	872,050
Trademarks and intellectual property	1,672,500	(181,188)	1,491,312
	<hr/> 6,084,458	<hr/> (601,031)	<hr/> 5,483,427

	As at December 31, 2008			
	Cost \$	Accumulated amortization \$	Accumulated write-down \$	Net carrying 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 property	1,672,500	(139,375)	—	1,533,125
	<hr/> 6,311,196	<hr/> (500,901)	<hr/> (300,386)	<hr/> 5,509,909

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.

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.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 7 Intangible assets (continued)

As a result, goodwill was written off in the amount of \$300,386 during 2008. 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

#### b) Issued

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

	<u>As at March 31, 2009</u>		<u>As at December 31, 2008</u>	
	<u>Number</u>	<u>Amount \$</u>	<u>Number</u>	<u>Amount \$</u>
Opening balance	22,884,614	7,650,565	10,000,000	1,354,446
Shares issued on acquisition of subsidiary	—	—	3,269,231	1,700,000
Shares issued for cash	—	—	9,615,383	5,000,002
Less: Share issue costs	—	—	—	(403,883)
Closing balance	<u>22,884,614</u>	<u>7,650,565</u>	<u>22,884,614</u>	<u>7,650,565</u>

#### 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 Professional Shredding Corporation as part consideration for the purchase of Professional Shredding Corporation; of the shares issued to Professional Shredding Partnership, 1,961,539 common shares are held in escrow as at March 31, 2009, and will be released in future periods in accordance with the Escrow Agreement.

On March 19, 2009, a total of 1,389,635 common shares have been released from escrow.

#### d) Weighted average common shares

The basic weighted average number of common shares outstanding for the quarter ended March 31, 2009 was 22,884,614 (2008 - 10,529,505).

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 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, 2008 – 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:

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>
Outstanding – Beginning of year	2,050,849	0.33	1,245,000	0.20
Granted	<u>-</u>	-	<u>805,849</u>	0.52
Outstanding – End of year	<u>2,050,849</u>	0.33	<u>2,050,849</u>	0.33

# RediShred Capital Corp.

Notes to Unaudited Consolidated Financial Statements  
For the quarters ended March 31, 2009 and 2008

## e) Stock options (continued)

The following table summarizes the stock options outstanding as at:

<b>March 31, 2009</b>				
Exercise prices \$	Issue date	Number of options outstanding	Weighted average remaining contractual life (yrs)	Options exercisable
0.20	Aug 29, 2007	975,000	3.41	975,000
0.20	Sept 5, 2007	270,000	0.43	270,000
0.52	Mar 17, 2008	380,000	3.94	95,000
0.52	Mar 17, 2008	335,849	.96	335,849
0.52	May 26, 2008	10,000	4.15	–
0.52	Aug 21, 2008	80,000	4.39	–
		<u>2,050,849</u>	2.76	<u>1,675,849</u>

<b>December 31, 2008</b>				
Exercise prices \$	Issue date	Number of options outstanding	Weighted average remaining contractual life (yrs)	Options exercisable
0.20	Aug 29, 2007	975,000	3.66	975,000
0.20	Sept 5, 2007	270,000	0.68	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	80,000	4.64	–
		<u>2,050,849</u>	3.01	<u>1,580,849</u>

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 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:

	<b>2009</b>
Expected option life	3.7 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, 2009 (2008 - \$0.20).

## 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 are as follows:

	\$
Year ending December 31,	
2009	63,024
2010	122,968
2011	122,968
2012	122,968
2013	92,226

### 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.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 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.

#### **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 March 31, 2009, 2 customers accounted for 25% of the accounts receivable balance. For the quarter ended March 31, 2009, 2 customers accounted for 27% of the Company's revenues. As of March 31, 2008, 3 customers accounted for 55% of the accounts receivable balance, and 39% of revenues. All accounts receivable from franchisees are under 30 days in age.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008

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### 10 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 March 31, 2009 at an exchange rate of 1.243 (December 31, 2008 - 1.223):

	March 31, 2009	December 31, 2008
	\$	\$
Cash	817,519	712,846
Accounts receivable	55,307	62,893
Deposits and prepaids	15,358	40,716
Notes receivable from franchisees	184,506	188,569
Accounts payable and accrued liabilities	(79,735)	(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.

#### 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 \$260,021 at March 31, 2009 (December 31, 2008 - \$466,638) 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 March 31, 2009 amounted to \$207,436 (December 31, 2008 - \$230,583), with fair value estimated to amount to \$219,623 (December 31, 2008 - \$219,623).

# RediShred Capital Corp.

Notes to Unaudited Consolidated Financial Statements  
For the quarters ended March 31, 2009 and 2008

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## 10 Financial risk management (continued)

### Carrying value of financial instruments

	March 31, 2009 \$	December 31, 2008 \$
Held-for-trading	1,257,618	1,653,604
Loans and receivables measured at amortized cost	408,590	387,038
Financial liabilities measured at amortized cost	(260,021)	(466,638)

## 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 share 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, 2009 \$	December 31, 2008 \$
<b>Assets</b>		
<b>Canada</b>		
Cash	236,047	781,936
Accounts receivable	108,920	79,549
Equipment	354,011	403,682
Other intangible assets	2,363,362	2,429,705
<b>United States</b>		
Cash	1,021,571	871,668
Accounts receivable	69,112	76,906
Notes receivable from franchisees	230,558	230,583
Other intangible assets	3,120,065	3,080,204

### Revenue

All revenues occurred in the United States.

# **RediShred Capital Corp.**

## **Notes to Unaudited Consolidated Financial Statements For the quarters ended March 31, 2009 and 2008**

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### **13 Related party balances and transactions**

Included in accounts receivable at March 31, 2009, is \$22,918 (December 31, 2008 - \$1,831) due from a franchise indirectly owned by a director of the Company. During the quarter, the Company earned royalty and service fees amounting to \$14,544 (December 31, 2008 - \$12,892) from a franchisee indirectly owned by a director of the Company.

Included in general, administrative and marketing expense are insurance premiums amounting to \$6,000 (December 31, 2008 - \$14,679) paid to a company owned by a director of the Company.

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

