

RediShred Capital Corp.

Consolidated Financial Statements
December 31, 2009 and 2008

April 23, 2010

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) "*Robert Crozier*"
Chief Executive Officer
Halifax, Nova Scotia

(signed) "*Jeffrey Hasham*"
Chief Financial Officer
Mississauga, Ontario

PricewaterhouseCoopers LLP
Chartered Accountants
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April 23, 2010

Auditors' Report

To the Shareholders of RediShred Capital Corp.

We have audited the consolidated balance sheets of **RediShred Capital Corp.** as at December 31, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

RediShred Capital Corp.

Consolidated Balance Sheets

As at December 31, 2009 and 2008

	2009 \$	2008 \$
Assets		
Current assets		
Cash	1,086,036	1,653,604
Accounts receivable	321,588	156,455
Prepaid expenses	16,850	74,293
Deposits and other assets (note 4)	—	66,707
Notes receivable from franchisees (note 5)	24,445	99,078
Income taxes recoverable	11,062	—
	<u>1,459,981</u>	<u>2,050,137</u>
Notes receivable from franchisees (note 5)	139,781	131,505
Equipment (note 6)	204,998	403,682
Deferred financing charges (note 7)	110,431	—
Intangible assets (note 8)	<u>4,364,364</u>	<u>5,509,909</u>
	<u>6,279,555</u>	<u>8,095,233</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	340,021	376,666
Income taxes payable	—	89,972
	<u>340,021</u>	<u>466,638</u>
Future income tax liability (note 10)	<u>646,000</u>	<u>924,000</u>
	<u>986,021</u>	<u>1,390,638</u>
Shareholders' Equity		
Capital stock (note 9)	8,585,808	7,650,565
Contributed surplus	208,391	189,400
Accumulated other comprehensive income	141,621	503,873
Deficit	<u>(3,642,286)</u>	<u>(1,639,243)</u>
	<u>5,293,534</u>	<u>6,704,595</u>
	<u>6,279,555</u>	<u>8,095,233</u>
Commitments and contingency (note 11)		

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, 2009 and 2008

	2009 \$	2008 \$
Revenue		
Franchise territory fees	139,883	378,113
Royalty and service fees	828,944	597,866
	<u>968,827</u>	<u>975,979</u>
Operating expenses		
Salaries and stock-based compensation	1,086,066	852,149
General, administrative and marketing	1,075,598	976,797
	<u>2,161,664</u>	<u>1,828,946</u>
Loss before the following	(1,192,837)	(852,967)
Amortization	(777,540)	(623,581)
Interest income	12,669	39,428
Foreign currency gain (loss)	(31,334)	53,888
Write-down of goodwill and intangible assets (note 8)	(169,001)	(300,386)
Loss before income taxes	(2,158,043)	(1,683,618)
Recovery of income taxes (note 10)	(155,000)	(188,000)
Net loss for the year	<u>(2,003,043)</u>	<u>(1,495,618)</u>
Loss per share – basic and diluted	<u>(0.09)</u>	<u>(0.07)</u>
Weighted average number of commons shares outstanding – basic	<u>23,016,122</u>	<u>20,201,791</u>

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, 2009 and 2008

	Capital stock \$ (note 8)	Contributed surplus \$ (note 8)	Accumulated other comprehensive income \$	Deficit \$	Total shareholders' equity \$
Balance – December 31, 2007	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					<u>(991,745)</u>
Issue of shares (net of costs)	6,296,119	–	–	–	6,296,119
Stock-based compensation	–	72,400	–	–	72,400
Balance – December 31, 2008	7,650,565	189,400	503,873	(1,639,243)	6,704,595
Net loss	–	–	–	(2,003,043)	(2,003,043)
Other comprehensive income					
Foreign currency translation loss	–	–	(362,252)	–	<u>(362,252)</u>
Comprehensive loss					<u>(2,365,295)</u>
Issue of shares and warrants (net of costs)	935,243	–	–	–	935,243
Stock-based compensation	–	18,991	–	–	18,991
Balance – December 31, 2009	<u>8,585,808</u>	<u>208,391</u>	<u>141,621</u>	<u>(3,642,286)</u>	<u>5,293,534</u>

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, 2009 and 2008

	2009 \$	2008 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(2,003,043)	(1,495,618)
Add items not affecting cash		
Amortization	777,540	623,581
Stock-based compensation	18,991	19,700
Unrealized foreign currency loss (gain)	34,641	(53,888)
Write-down of goodwill and intangible assets	169,001	300,386
Allowance for doubtful receivables	20,151	-
Impairment of note receivable	47,144	-
Future income taxes	(155,000)	(193,000)
	(1,090,575)	(798,839)
Net change in non-cash working capital balances		
Decrease (increase) in accounts receivable	(213,118)	(107,862)
Decrease (increase) prepaid expenses	57,386	11,714
Decrease (increase) in deposits and other assets	62,284	(59,299)
Increase (decrease) in accounts payable and accrued liabilities	(21,832)	186,340
Increase (decrease) in income taxes payable	(96,070)	(5,414)
	(1,301,925)	(773,360)
Financing activities		
Net cash proceeds from issuance of common shares and warrants	851,443	4,648,819
Deferred financing charges	(26,631)	-
	824,812	4,648,819
Investing activities		
Cash paid on acquisition of subsidiary, net of cash acquired	-	(3,743,380)
Disposition of intangible assets	-	100,000
Purchase of capital assets	-	(101,410)
Increase in notes receivable from franchisees	(82,775)	-
Collection of notes receivable from franchisees	72,249	45,284
	(10,526)	(3,699,506)
Effect of foreign exchange rate changes on cash	(79,929)	115,399
Net change in cash for the year	(567,568)	291,352
Cash – Beginning of year	1,653,604	1,362,252
Cash – End of year	1,086,036	1,653,604
Cash flows from operating activities include		
Interest received	12,668	43,101
Income taxes paid	96,085	10,111

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, 2009 and 2008

1 Nature of operations

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

As of December 31, 2009, Proshred Franchising Corp. (“PFC”), a wholly owned subsidiary of PSC, has awarded 17 (December 31, 2008 - 16) franchise locations, of which 17 (December 31, 2008 - 16) were in operation.

2 Significant accounting policies

Basis of presentation

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

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

On January 1, 2009, the Company adopted Section 3064, Goodwill and Intangible Assets and Section 3450, Research and Development Costs, which replaced existing standards. These new sections establish standards for the recognition, measurement and disclosure of goodwill and other intangible assets. The adoption of these sections did not have a significant effect on the consolidated financial statements.

EIC-173, Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Company adopted EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC-173 states that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this standard did not have a significant effect on the consolidated financial statements.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2 Significant accounting policies (continued)

Changes in accounting policies and new accounting pronouncements (continued)

Section 3862, Financial Instruments – Disclosures

In December 2009, the Company adopted amendments to Section 3862, Financial Instruments – Disclosures which requires enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The additional disclosures are included in note 12.

Recent accounting pronouncements issued and not yet adopted

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests, which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the entity chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board ratified a strategic plan that will see GAAP converged with and replaced by IFRS for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. For the quarter ended March 31, 2011, the Company expects to issue its financial results on an IFRS basis with comparative data on an IFRS basis. The Company is currently assessing the impact of changing over to IFRS on its financial position and results of operations.

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:

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2 Significant accounting policies (continued)

Use of accounting estimates (continued)

- i) Economic useful life of proprietary software system for purposes of calculating depreciation;
- ii) The allocation of the PSC 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;
- iii) Valuation of accounts receivable and notes receivable from franchisees;
- iv) Valuation of intangible assets; and
- v) Assumptions used in the measurement of stock-based compensation and the fair value of warrants.

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

Cash

As at December 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.

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, 2009 and 2008

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 straight-line basis at the following annual rates:

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

Intangible assets

Intangible assets are recorded at their fair value at the date of acquisition. 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, 2009 and 2008

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.

Deferred financing charges

Deferred financing charges consist of costs incurred relating to the issuance of a revolving line of credit obtained on December 23, 2009 and are amortized over the term of the facility which expires on November 27, 2014.

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 recorded an impairment against all goodwill in 2008.

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.

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.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2 Significant accounting policies (continued)

i) Financial instruments – recognition and measurement (continued)

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) Financial instruments – disclosures

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

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

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

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

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

iii) Comprehensive income

Under Section 1530, comprehensive income is comprised of net earnings and other comprehensive income (OCI) which generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign 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, 2009 and 2008

3 Acquisition of Professional Shredding Corporation

On March 17, 2008, the Company completed the purchase of PSC by acquiring all of the outstanding shares. The purchase consideration of \$5,443,380 was 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:

	\$
Assets acquired	
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>
Liabilities assumed	
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>
 Net assets acquired	 <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. There were no deposits provided to acquisition targets as of December 31, 2009 (2008 - \$30,567).

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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 5.25% to 6.50% per annum with monthly blended payments of principal and interest ranging from US\$526 to US\$1,797, commenced between dates ranging from June 30, 2006 to April 15, 2009 and mature between dates ranging from October 1, 2011 to March 15, 2012. The amounts are as follows:

	2009	2008
	\$	\$
Principal	207,559	230,583
Less: Allowance for impairment	43,333	—
Less: Current portion	24,445	99,078
	<u>139,781</u>	<u>131,505</u>

Of the notes receivable outstanding at December 31, 2008, \$137,915 was acquired as part of the acquisition of PSC on March 17, 2008. The fair value of these notes has been disclosed in note 12.

The Company has recorded an allowance for impairment against a note receivable based on the present value of expected future cash flows using a discount rate equal to the effective interest rate on the note receivable prior to the Company ceasing to accrue interest charges. Management was required to use judgment based on assumptions believed to be reasonable in making this estimate. As such, actual losses could differ from the estimate. At December 31, 2009, the gross amount of notes receivable payments 90 days or more past due amounted to \$32,628 (2008 - \$2,778).

6 Equipment

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

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

6 Equipment (continued)

	Cost	Accumulated amortization	2008 Net carrying 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 acquire any equipment during 2009. The assets above, with the exception of \$101,410, were acquired as part of the acquisition of PSC 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.

7 Deferred financing charges

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

8 Intangible assets

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

	Cost	Accumulated amortization	Accumulated write-down	2008 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
	<u>6,311,196</u>	<u>(500,901)</u>	<u>(300,386)</u>	<u>5,509,909</u>

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

8 Intangible assets (continued)

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

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. When the undiscounted cash flows of the assets are less than the carrying value of the asset, a write-down is required. One franchisee ceased their operations, materially affecting the value of future cash flows related to that franchise agreement. The Company assessed the intangible assets for impairment and recorded a write-down of intangible assets in 2009 of \$152,000 due to impairment.

9 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, 2009 and 2008

9 Capital stock (continued)

b) Issued

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

	Common stock		Warrants		Total \$
	Number	\$	Number	\$	
Balance, December 31, 2007	10,000,000	1,354,446	—	—	1,354,446
Shares issued on acquisition of subsidiary	3,269,231	1,700,000	—	—	1,700,000
Shares issued for cash	9,615,383	5,000,002	—	—	5,000,002
Share issue costs	—	(403,883)	—	—	(403,883)
Balance, December 31, 2008	22,884,614	7,650,565	—	—	7,650,565
Units issued for cash	6,000,044	683,033	3,000,000	216,974	900,007
Warrants issued on line of credit	—	—	1,000,000	83,800	83,800
Issue costs	—	(35,996)	—	(12,568)	(48,564)
Balance, December 31, 2009	28,884,658	8,297,602	4,000,000	288,206	8,585,808

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.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

9 Capital stock (continued)

c) Details of share issuances (continued)

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.

On March 17, 2008, the Company issued 9,615,383 common shares for cash of \$5,000,002. In addition, 3,269,231 common shares valued at \$1,700,000 were issued to Professional Shredding Partnership as part consideration for the purchase of PSC; as at December 31, 2009, 1,471,154 common shares owned by Professional Shredding Partnership are held in escrow. As at December 31, 2009, a total of 4,168,904 common shares are held in escrow and will be released in future periods with the Escrow Agreement. Subsequent to year-end, on March 19, 2010, 1,389,635 common shares were released from escrow.

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

d) Weighted average common shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2009, was 23,016,122 (2008 - 20,201,791).

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

9 Capital stock (continued)

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 2,888,465 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 year:

	<u>2009</u>		<u>2008</u>	
	Number of shares	Weighted average exercise price \$	Number of shares	Weighted average exercise price \$
Outstanding – Beginning of year	2,050,849	0.33	1,245,000	0.20
Granted	–	–	805,849	0.52
Forfeited	(107,500)	0.52	–	–
Expired	<u>(270,000)</u>	0.20	<u>–</u>	–
Outstanding – End of year	<u>1,673,349</u>	0.34	<u>2,050,849</u>	0.33

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

9 Capital stock (continued)

e) Stock options (continued)

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

Exercise prices \$	Issue date	2009				2008	
		Number of options outstanding	Weighted average remaining contractual life (yrs)	Options exercisable	Number of options outstanding	Weighted average remaining contractual life (yrs)	Options exercisable
0.20	Aug 29, 2007	975,000	2.66	975,000	975,000	3.66	975,000
0.20	Sept 5, 2007	—	—	—	270,000	0.68	270,000
0.52	Mar 17, 2008	352,500	3.21	88,125	380,000	4.19	—
0.52	Mar 17, 2008	335,849	0.21	335,849	335,849	1.21	335,849
0.60	May 26, 2008	10,000	3.40	2,500	10,000	4.40	—
0.52	Aug 21, 2008	—	—	—	80,000	4.64	—
		<u>1,673,349</u>	2.29	<u>1,401,474</u>	<u>2,050,849</u>	3.01	<u>1,580,849</u>

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
Expected option life	3.7 years
Risk-free interest rate	3.5%
Expected dividend yield	nil
Expected volatility	50%

The weighted average grant-date fair value of options granted during 2008 amounted to \$0.20 per option. No options were granted during 2009. The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$18,991 (2008 - \$72,400).

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

9 Capital stock (continued)

f) Warrants

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

				2009
	Exercise price	Number of warrants outstanding or to be issued	Remaining contractual life	Assigned value
	\$			\$
Tranche 1	0.25 to 0.45	3,000,000	4.90 years	204,406
Tranche 2	0.25 to 0.45	1,000,000	4.98 years	83,800

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

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

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

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

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

10 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, 2009 and 2008:

	2009 \$	2008 \$
Loss before income taxes	(2,158,043)	(1,683,618)
Income tax rate	33%	34%
Expected income tax recovery based on above rates	(712,000)	(572,000)
Other non-deductible expenses	23,000	7,000
Non-deductible write-off of goodwill and intangible assets	—	102,000
Increase in valuation allowance	721,000	310,000
Other and permanent differences	—	(35,000)
Effect on changing income tax rates and other	(187,000)	—
Provision for income taxes	(155,000)	(188,000)

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

	2009 \$	2008 \$
Current income taxes	—	5,000
Future income taxes	(876,000)	(503,000)
Increase in valuation allowance	721,000	310,000
	(155,000)	(188,000)

The following reflects the components of future income tax assets at December 31, 2009 and 2008:

	2009 \$	2008 \$
Future tax assets		
Non-capital losses carried forward	997,000	271,000
Deductible share issue costs	81,000	112,000
Other	29,000	18,000
	1,107,000	401,000
Valuation allowance	(1,093,000)	(372,000)
	14,000	29,000
Future tax liabilities		
Accounting value of intangible assets in excess of tax value	(660,000)	(953,000)
Net future tax liability	(646,000)	(924,000)

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

10 Income taxes (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately \$3,998,000, 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	1,752,000
2029	2,177,000

The Corporation has undeducted share issuance costs of approximately \$321,000 which will be deducted from Canadian taxable income over the next four years.

11 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, 2010	122,968
2011	122,968
2012	122,968
2013	92,226

As part of the private placement which occurred on December 23, 2009, as described in note 8, the Company undertook to issue 1,000,000 warrants to the line of credit lender when it is first drawn upon. At year end, the line of credit remained unutilized. This line of credit is secured by a general security agreement over all of the Company's assets.

12 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.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12 Financial risk management (continued)

Credit risk

In accordance with its investment policy, the Company maintains cash deposits with banks. The credit risk on cash is limited because the counterparties are banks with high-credit ratings assigned by international credit-rating agencies.

The accounts receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and all existing franchisees. In addition, the receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. As of December 31, 2009, 5 franchisees accounted for 66% of the accounts receivable balance. For the year ended December 31, 2009, 3 franchisees accounted for 34% of the Company's revenues. As of December 31, 2009, 17% of accounts receivable was over 90 days old.

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, 2009, at an exchange rate of 1.0494 (2008 - 1.223):

	2009	2008
	\$	\$
Cash	239,726	712,846
Accounts receivable	246,253	62,893
Deposits and prepaids	-	40,716
Notes receivable from franchisees	156,495	188,569
Accounts payable and accrued liabilities	(90,251)	(92,265)

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.

At December 31, 2009, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the US dollar would have resulted in approximately \$37,000 increase (decrease) in the income before taxes or in other comprehensive income for the year.

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12 Financial risk management (continued)

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due while maintaining compliance with all financial covenants. The accounts payable and accrued liabilities and income taxes payable of \$340,021 at December 31, 2009 (2008 - \$466,638), are due to be settled within one year from balance sheet date.

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

Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate their value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees (note 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, 2009, amounted to \$207,559 (2008 - \$230,583) with fair value estimated to amount to \$130,399 (2008 - \$219,623).

Carrying value of financial instruments

	2009	2008
	\$	\$
Held-for-trading	1,086,036	1,653,604
Loans and receivables measured at amortized cost	485,814	387,038
Financial liabilities measured at amortized cost	(340,021)	(376,666)

13 Capital management

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

RediShred Capital Corp.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

14 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:

	2009	2008
	\$	\$
Assets		
Canada		
Cash	834,467	781,936
Accounts receivable	63,170	79,549
Equipment	204,998	403,682
Other intangible assets	2,164,569	2,429,625
United States		
Cash	251,569	871,668
Accounts receivable	258,418	76,906
Notes receivable from franchisees	164,226	230,583
Other intangible assets	2,199,795	3,080,284

Revenue

All revenues occurred in the United States.

15 Related party balances and transactions

Included in accounts receivable at December 31, 2009, is \$383 (2008 - \$1,831) due to a franchisee indirectly owned by a director of the Company. During the year, the Company earned royalty and service fees amounting to \$68,689 (2008 - \$45,916) from a franchisee indirectly owned by a director of the Company.

Included in general, administrative and marketing expense are insurance premiums amounting to \$16,879 (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.

