

# **REDISHRED CAPITAL CORP.**

## **FORM 51-102F4**

### **BUSINESS ACQUISITION REPORT**

#### **ITEM 1 IDENTITY OF COMPANY**

##### **1.1 Name and Address of the Company**

Redishred Capital Corporation.  
245 Yorkland Blvd. Suite 100  
Toronto, Ontario M2J 4W9

##### **1.2 Executive Officer**

The following is the name and business telephone number of an executive officer of Redishred Capital Corporation who is knowledgeable about the acquisition described in this report:

Jeffrey Hasham  
Chief Financial Officer  
(416) 849-3469

#### **ITEM 2 DETAILS OF ACQUISITION**

##### **2.1 Nature of Business Acquired**

On March 17, 2008, Redishred Capital Corporation (“RCC”) completed the acquisition of Professional Shredding Corporation (“PSC”).

PSC franchises the right in the United States and internationally outside of Canada to sell on-site services for the destruction and disposal of documents and other sensitive and confidential materials under the trademark **PROSHRED®** (the “Proshred Franchising Business”). Its customers are primarily businesses and other organizations that need to maintain the confidentiality of their proprietary information, whether for competitive reasons, to comply with legal requirements or otherwise. The Proshred Franchising Business allows business customers and individual customers to witness the destruction of their selected paper documents, computer disks and other media that contain sensitive and confidential proprietary information. The Proshred Franchising Business also offers services to residential and home office customers.

PSC has developed numerous systems and operating procedures that enable franchisees to operate their business in an effective and consistent manner. The key systems include a customer relationship package that is used to manage the franchisees sales process; a customized software program called Shredlogic that manages work orders, logistics and invoicing; and, a comprehensive set of operating manuals that include pre-opening

supplies and equipment, human resources, administration, sales and marketing, operations, the ISO program, Shredlogic and a customer service professional handbook.

The Proshred Franchising Business is ISO 9001 certified for international standards in quality and customer satisfaction.

**2.2 Date of Acquisition**

March 17, 2008.

**2.3 Consideration**

RCC paid an aggregate purchase price of \$5.3 million (subject to customary adjustments) for PSC. The purchase price was paid with a combination of \$3.6 million in cash and 3,269,230 common shares from treasury of RediShred at a deemed price of \$0.52 per Common Share..

**2.4 Effect on Financial Position**

The effect of the acquisition of PSC on the assets and operations of RCC are set out in detail in the *pro forma* financial statements included and in the Filing Statement of RCC dated February 29, 2008 (available at [www.sedar.com](http://www.sedar.com)).

**2.5 Prior Valuations**

Not applicable.

**2.6 Parties to Transaction**

The vendor of PSC was Professional Shredding Partnership (the “Vendor”), which is arm’s length to RCC and not an “informed person” of RCC under National Instrument 51-102 – *Continuous Disclosure Obligations*.

At the time RCC agreed to purchase PSC:

(a) Brad Foster was a director and a 5% shareholder of RCC. He was also a director and officer of one of the partners in the Vendor, but did not directly or indirectly have any equity interest in the Vendor;

(b) Hugh Heron was a technical consultant and a 5% shareholder of RCC. He was also an officer and director of one of the partners in the Vendor and indirectly had approximately a 21% beneficial equity interest in the Vendor, and indirectly has a one-third controlling interest in the Vendor; and

(c) John Prittie was a technical consultant and a 7.5% shareholder of RCC. He was also an officer and director of one of the partners in the Vendor and was an indirect minority shareholder of the Vendor, with approximately a 7% non-controlling beneficial interest.

**2.7 Date of Report**

May 22, 2008.

**ITEM 3 FINANCIAL STATEMENTS**

The unaudited combined balance sheet of the Proshred Franchise Business as at December 31, 2007 and 2006 and the combined statements of loss and cash flows for the nine months ended December 31, 2007 and 2006 are included along with the audited combined balance sheet of the Proshred Franchise Business as at March 31, 2007 and the audited combined statements of loss and cash flows for the year ended March 31, 2007 and the unaudited combined balance sheet of the Proshred Franchise Business as at March 31, 2006 and 2005 and the unaudited combined statements of loss and cash flows for the year ended March 31, 2006 and the six months ended March 31, 2005.

These financial statements should be read in conjunction with the financial statements included in the Filing Statement, dated February 29, 2008 (available at [www.sedar.com](http://www.sedar.com)).

The unaudited *pro forma* consolidated balance sheet of RCC as at December 31, 2007 and the unaudited *pro forma* consolidated statement of income (loss) and retained earnings (deficit) of RCC for the year ended December 31, 2007 are included in this business acquisition report.

**PROSHRED FRANCHISE BUSINESS**

**COMBINED FINANCIAL STATEMENTS**

**NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)**

**YEAR ENDED MARCH 31, 2007 (AUDITED)**

**YEAR ENDED MARCH 31, 2006 (UNAUDITED)**

**SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

## PROSHRED FRANCHISE BUSINESS

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**AUDITORS' REPORT**

To the Directors of  
**PROSHRED FRANCHISE BUSINESS**

We have audited the combined balance sheet of **PROSHRED FRANCHISE BUSINESS** as at March 31, 2007 and the combined statements of loss and owners' equity and cash flows for the year then ended. These financial statements are the responsibility of the management of Proshred Franchise Business. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 combined financial statements present fairly, in all material respects, the financial position of Proshred Franchise Business as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Kraft Berger LLP*

**KRAFT BERGER LLP**  
Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
October 22, 2007

## PROSHRED FRANCHISE BUSINESS

## COMBINED BALANCE SHEETS

## ASSETS

	<u>December 31</u> <u>2007</u>	<u>March 31</u> <u>2007</u>	<u>March 31</u> <u>2006</u>	<u>March 31</u> <u>2005</u>
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
<b>CURRENT ASSETS</b>				
Cash	\$ 158,117	\$ 106,632	\$ 105,715	\$ 84,616
Accounts receivable	124,997	175,548	20,212	5,866
Prepaid expenses and sundry assets	6,928	10,020	9,300	21,820
Notes receivable from franchisees (Note 3)	91,926	62,103	-	-
	<u>381,967</u>	<u>354,303</u>	<u>135,227</u>	<u>112,302</u>
<b>NOTES RECEIVABLE FROM FRANCHISEES</b> (Note 3)	140,712	198,954	86,180	-
<b>EQUIPMENT</b> (Note 4)	22,098	15,330	66,540	97,792
<b>CUSTOMER LIST</b> (Note 5)	-	-	43,750	131,250
<b>TRADEMARKS</b>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
	<u>\$ 559,777</u>	<u>\$ 583,587</u>	<u>\$ 346,697</u>	<u>\$ 356,344</u>

## LIABILITIES

<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 98,051	\$ 214,366	\$ 133,532	\$ 42,271
Income taxes payable	1,993	17,585	-	-
Deferred franchise fee revenue (Note 6)	125,206	133,582	-	-
Promissory note payable (Note 7)	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
	245,250	385,533	153,532	62,271
<b>PROMISSORY NOTE PAYABLE</b> (Note 7)	<u>15,000</u>	<u>30,000</u>	<u>50,000</u>	<u>70,000</u>
	<u>260,251</u>	<u>415,533</u>	<u>203,532</u>	<u>132,271</u>

## OWNERS' EQUITY

<b>OWNERS' EQUITY</b>	<u>299,526</u>	<u>168,054</u>	<u>143,165</u>	<u>224,073</u>
	<u>\$ 559,777</u>	<u>\$ 583,587</u>	<u>\$ 346,697</u>	<u>\$ 356,344</u>

See accompanying notes to combined financial statements.

**APPROVED ON BEHALF OF THE BOARD:**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## PROSHRED FRANCHISE BUSINESS

## COMBINED STATEMENT OF LOSS AND OWNERS' EQUITY

	Nine month period ended December 31 <u>2007</u> (Unaudited)	Year ended March 31 <u>2007</u> (Audited)	Nine month period ended December 31 <u>2006</u> (Unaudited)	Year ended March 31 <u>2006</u> (Unaudited)	Six month period ended March 31 <u>2005</u> (Unaudited)
<b>REVENUE</b>					
Franchise territory fees	\$ 779,770	\$ 586,449	\$ 315,917	\$ 150,332	\$ 73,244
Royalties and service fees	297,770	251,665	177,201	167,132	15,553
Interest income	11,079	13,869	7,974	1,490	-
	<u>1,088,620</u>	<u>851,983</u>	<u>501,092</u>	<u>318,954</u>	<u>88,797</u>
<b>EXPENSES</b>					
Salaries and consulting fees	601,685	730,737	539,194	681,039	332,630
General and administrative and marketing costs	523,044	664,903	429,194	450,245	119,719
Amortization (Notes 4 and 5)	6,219	95,257	82,781	137,676	90,125
	<u>1,130,948</u>	<u>1,490,897</u>	<u>1,051,169</u>	<u>1,268,960</u>	<u>542,474</u>
<b>LOSS BEFORE INCOME TAXES</b>	(42,329)	(638,914)	(550,076)	(950,006)	(453,677)
Income taxes (Note 10)	15,083	17,800	7,716	-	-
<b>NET LOSS FOR THE PERIOD</b>	(57,412)	(656,714)	(557,792)	(950,006)	(453,677)
<b>OWNERS' EQUITY</b> , beginning of period	168,054	143,165	143,165	224,073	-
	110,642	(513,549)	(414,627)	(725,933)	(453,677)
Owners' contributions	188,884	681,603	607,136	869,098	677,750
<b>OWNERS' EQUITY</b> , end of period	<u>\$ 299,526</u>	<u>\$ 168,054</u>	<u>\$ 192,509</u>	<u>\$ 143,165</u>	<u>\$ 224,073</u>

See accompanying notes to combined financial statements.

## PROSHRED FRANCHISE BUSINESS

## COMBINED STATEMENT OF CASH FLOWS

	Nine month period ended December 31 2007 (Unaudited)	Year ended March 31 2007 (Audited)	Nine month period ended December 31 2006 (Unaudited)	Year ended March 31 2006 (Unaudited)	Six month period ended March 31 2005 (Unaudited)
<b>OPERATING ACTIVITIES</b>					
Net loss for the period	\$ (57,412)	\$ (656,714)	\$ (557,792)	\$ (950,006)	\$ (453,677)
Amortization	6,219	95,257	82,781	137,676	90,125
	<u>(51,193)</u>	<u>(561,457)</u>	<u>(348,668)</u>	<u>(812,330)</u>	<u>(363,552)</u>
Accounts receivable	50,551	(155,336)	10,605	(5,505)	(5,866)
Prepaid expenses and sundry assets	3,092	(720)	3,365	12,520	(21,820)
Accounts payable and accrued liabilities	(116,315)	80,834	(14,216)	82,420	42,271
Income taxes payable	(15,592)	17,585	-	-	-
Deferred franchise fee revenue	(8,376)	133,582	13,194	-	-
	<u>(86,639)</u>	<u>75,945</u>	<u>12,947</u>	<u>89,435</u>	<u>14,585</u>
	<u>(137,832)</u>	<u>(485,512)</u>	<u>(462,064)</u>	<u>(722,895)</u>	<u>(348,967)</u>
<b>INVESTING ACTIVITIES</b>					
(Increase) decrease in notes receivable from franchisees	28,419	(174,877)	(141,204)	(86,180)	-
Purchase of equipment	(12,987)	(297)	(297)	(18,924)	(144,167)
Purchase of customer list	-	-	-	-	(175,000)
Purchase of trademarks	-	-	-	-	(15,000)
	<u>15,432</u>	<u>(175,174)</u>	<u>(110,985)</u>	<u>(105,104)</u>	<u>(334,167)</u>
<b>FINANCING ACTIVITY</b>					
Increase (decrease) in promissory note payable	(15,000)	(20,000)	(15,000)	(20,000)	90,000
Contributions from owners	188,884	681,603	607,136	869,098	677,750
	<u>173,884</u>	<u>661,603</u>	<u>592,136</u>	<u>849,098</u>	<u>767,750</u>
<b>CHANGE IN CASH</b>	51,485	917	(11,428)	21,099	84,616
<b>CASH, beginning of period</b>	<u>106,632</u>	<u>105,715</u>	<u>105,715</u>	<u>84,616</u>	<u>-</u>
<b>CASH, end of period</b>	<u>\$ 158,117</u>	<u>\$ 106,632</u>	<u>\$ 94,287</u>	<u>\$ 105,715</u>	<u>\$ 84,616</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>					
Income taxes paid	\$ 25,658	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 634	\$ 2,364	\$ 1,890	\$ 3,000	\$ 1,825

See accompanying notes to combined financial statements.

**PROSHRED FRANCHISE BUSINESS****NOTES TO COMBINED FINANCIAL STATEMENTS****NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)****YEAR ENDED MARCH 31, 2007 (AUDITED)****YEAR ENDED MARCH 31, 2006 (UNAUDITED)****SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)****1. BASIS OF PRESENTATION AND NATURE OF BUSINESS**

The combined financial statements of Proshred Franchise Business (as defined below) have been prepared on a carve-out basis from the financial statements of Heron Capital Corporation and the The Heron Group Inc. (collectively, the "Owners") to account solely for the business segment ("Proshred Franchise Business") which Redishred Capital Corp. (the "Corporation") anticipates purchasing pursuant to a letter of intent between the Corporation and each of the Owners. In particular, these combined financial statements have been prepared for the specific purpose of reporting upon the assets, liabilities, revenue, expenses and owners' equity in net assets of Proshred Franchise Business included in, and for inclusion in, the filings relating to the qualifying transaction of the Corporation.

Because Proshred Franchise Business was part of a corporate group, these combined financial statements depict the owners' equity in net assets representing the amount associated specifically with this business segment. Management's estimates, where necessary, have been used to prepare such allocations.

Proshred Franchise Business is not a legal entity and the business segment is comprised of the following investments of the Owners:

- a) Professional Shredding Partnership (which is owned 55% by The Heron Group Inc. and 45% by Heron Capital Corporation);
- b) Professional Shredding Corporation (which is owned 100% by Professional Shredding Partnership); and
- c) Proshred Franchising Corp. (which is owned 100% by Professional Shredding Corporation).

All amounts have been derived from records specific to the business segment to be sold to the Corporation.

These combined financial statements may not necessarily reflect Proshred Franchise Business' financial position, results of operations and cash flows in future periods, nor do they necessarily reflect the financial position, results of operations and cash flows that would have been realized had Proshred Franchise Business been a stand-alone entity during the periods presented.

The nature of Proshred Franchise Business' business is to license and manage Proshred secure mobile document destruction franchises in the United States of America and internationally outside of Canada.

**PROSHRED FRANCHISE BUSINESS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)**  
**YEAR ENDED MARCH 31, 2007 (AUDITED)**  
**YEAR ENDED MARCH 31, 2006 (UNAUDITED)**  
**SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Equipment**

Equipment is carried at cost. Amortization is provided for over the estimated useful lives, using the following annual rates and methods:

Computer equipment	- 30%, declining balance basis
Computer software	- over two years, straight-line basis

When equipment is acquired during the year, one-half of the annual amortization is provided for.

**(b) Customer list**

Customer list is recorded at cost and is amortized on a straight line basis over its estimated useful life of 24 months.

**(c) Trademarks**

Trademarks are recorded at cost and are not amortized, but are subject to fair value impairment tests. Proshred Franchise Business compares the carrying amount of the trademarks to the fair value, at least annually, and recognizes in net income any impairment in value.

**(d) Impairment of Long-Lived Assets**

Long-lived assets, including equipment, customer list and trademarks are reviewed for impairment when significant events or circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment exists 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. Fair value is generally measured equal to the estimated future discounted net cash flows from the asset.

**(e) Revenue Recognition**

Proshred Franchise Business 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 provided the prescribed training. Royalties and service fees revenue is accrued monthly based on sales reported by franchisees. Interest income on notes receivable from franchisees is recognized in the month earned.

**PROSHRED FRANCHISE BUSINESS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)**  
**YEAR ENDED MARCH 31, 2007 (AUDITED)**  
**YEAR ENDED MARCH 31, 2006 (UNAUDITED)**  
**SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Future Income Taxes**

Proshred Franchise Business uses the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates which are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect on future income tax assets and liabilities of a change in the tax rates is included in income in the period that the rate changes.

**(g) Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates in effect on the transaction date. Revenue and expenses denominated in foreign currencies are translated at the average exchange rate during the month in which they are earned/incurred. Foreign currency gains or losses are included in the determination of the income for the year.

**(h) Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

**PROSHRED FRANCHISE BUSINESS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)**  
**YEAR ENDED MARCH 31, 2007 (AUDITED)**  
**YEAR ENDED MARCH 31, 2006 (UNAUDITED)**  
**SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Future Changes to Accounting Standards**

Effective for fiscal 2008, Proshred Franchise Business will be required to adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506. This Section establishes criteria for changing accounting policies, together with treatment and disclosure of changes in accounting policies and estimates and correction of errors.

Effective for fiscal 2008, Proshred Franchise Business will be required to adopt the CICA Handbook Section 1530. This Section establishes standards for reporting and display of comprehensive income. It does not address issues of recognition or measurement for comprehensive income and its components.

Effective for fiscal 2008, Proshred Franchise Business will be required to adopt CICA Handbook Section 3251 which replaces Section 3250. This Section establishes standards for the presentation of equity and changes in equity during the reporting period.

Effective for fiscal 2008, Proshred Franchise Business will be required to adopt the changes to CICA Handbook Section 3855 and to adopt Section 3861 which replaces Section 3250. Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

Proshred Franchise Business is assessing the impacts of the adoption of the aforementioned sections on its financial statements.

**3. NOTES RECEIVABLE FROM FRANCHISEES**

Notes receivable arise from the financing of the initial franchise fee by franchisees, are guaranteed by the respective owners of the franchises, bear interest at rates ranging from 8.00% to 10.25% per annum with monthly blended payments of principal and interest ranging from US\$1,133.46 to US\$3,060.35, commenced between dates ranging from June 30, 2006 to October 15, 2007 and maturing between dates ranging from May 31, 2009 to February 1, 2011. The amounts are as follows:

	<u>December 31</u> <u>2007</u> (Unaudited)	<u>March 31</u> <u>2007</u> (Audited)	<u>March 31</u> <u>2006</u> (Unaudited)	<u>March 31</u> <u>2005</u> (Unaudited)
Principal	\$ 244,807	\$ 247,188	\$ 84,680	\$ -
Accrued interest	12,169	13,869	1,500	-
	232,638	261,057	86,180	-
Less: Current portion	91,926	62,103	-	-
	<u>\$ 140,712</u>	<u>\$ 198,954</u>	<u>\$ 86,180</u>	<u>\$ -</u>

**PROSHRED FRANCHISE BUSINESS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)**  
**YEAR ENDED MARCH 31, 2007 (AUDITED)**  
**YEAR ENDED MARCH 31, 2006 (UNAUDITED)**  
**SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

**4. EQUIPMENT**

	<b>December 31</b>	<b>March 31</b>	<b>March 31</b>	<b>March 31</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
Computer equipment	\$ 41,375	\$ 28,388	\$ 28,091	\$ 9,167
Computer software	-	135,000	135,000	135,000
	<u>41,375</u>	<u>163,388</u>	<u>163,091</u>	<u>144,167</u>
Less: Accumulated amortization				
Computer equipment	19,277	13,058	6,551	1,375
Computer software	-	135,000	90,000	45,000
	<u>19,277</u>	<u>148,058</u>	<u>96,551</u>	<u>46,375</u>
	<u>\$ 22,098</u>	<u>\$ 15,330</u>	<u>\$ 66,540</u>	<u>\$ 97,792</u>

Amortization for the period is \$6,219 (March 31, 2007 - \$51,507; December 31, 2006 - \$39,031; March 31, 2006 - \$50,176; March 31, 2005 - \$46,375)

**5. CUSTOMER LIST**

	<b>December 31</b>	<b>March 31</b>	<b>March 31</b>	<b>March 31</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
Cost	\$ -	\$ 175,000	\$ 175,000	\$ 175,000
Less: Accumulated amortization	-	175,000	131,250	43,750
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,750</u>	<u>\$ 131,250</u>

Amortization for the period is Nil (March 31, 2007- \$43,750; December 31, 2006 - \$43,750; March 31, 2006 - \$87,500; March 31, 2005 - \$43,750)

**6. DEFERRED FRANCHISE FEE REVENUE**

Deferred franchise fee revenue represents funds received for initial franchise fees but for which the full terms of the franchise agreement were not executed by the contracting parties.

## PROSHRED FRANCHISE BUSINESS

## NOTES TO COMBINED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)

YEAR ENDED MARCH 31, 2007 (AUDITED)

YEAR ENDED MARCH 31, 2006 (UNAUDITED)

SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)

**7. PROMISSORY NOTE PAYABLE**

The promissory note payable bears interest at 4% per annum, is repayable in monthly instalments of \$1,667 plus interest and matures on September 30, 2009. Principal repayments during the years ended December 31 are noted below:

2008	\$	20,000
2009		<u>15,000</u>
		35,000
Less: Current portion		<u>20,000</u>
	<u>\$</u>	<u>15,000</u>

**8. FINANCIAL INSTRUMENTS****(a) Concentration of Credit Risk**

Proshred Franchise Business is subject to credit risk with respect to its accounts receivable and notes receivable from franchisees. Proshred Franchise Business conducts credit, background and other financial due diligence to reduce credit risk.

**(b) Interest Rate Risk**

Proshred Franchise Business' risk with respect to interest rates is limited because its notes receivable from franchisees bear interest at fixed rates.

**(c) Fair Values of Financial Instruments**

The carrying amounts of cash, account receivable and accounts payable and accrued liabilities approximate fair value because of the short-term maturity of these financial instruments.

The carrying amount of notes receivable from franchisees and promissory notes payable approximate fair value as the interest rates charged on these financial instruments are not materially different from the current market rate of interest available to Proshred Franchise Business for similar financial instruments.

The following amounts denominated in U.S. funds are translated at 0.9820 (March 31, 2007 - 1.1546, March 31, 2006 - 1.1680, March 31, 2005 - 1.2096)

	<u>December 31</u> <u>2007</u> (Unaudited) U.S.\$	<u>March 31</u> <u>2007</u> (Audited) U.S.\$	<u>March 31</u> <u>2006</u> (Unaudited) U.S.\$	<u>March 31</u> <u>2005</u> (Unaudited) U.S.\$
Cash	158,657	90,621	101,354	65,969
Accounts receivable	114,413	149,473	11,716	4,644
Notes receivable from franchisees	236,902	226,102	73,784	-
Accounts payable and accrued liabilities	40,596	107,342	30,906	40,593

## PROSHRED FRANCHISE BUSINESS

## NOTES TO COMBINED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)

YEAR ENDED MARCH 31, 2007 (AUDITED)

YEAR ENDED MARCH 31, 2006 (UNAUDITED)

SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)

## 9. COMMITMENT

Proshred Franchise Business uses a portion of the Owners' leased premises. The lease expires on June 30, 2010. Future minimum lease payments for Proshred Franchise Business' portion of the leased premises in aggregate and in each of the succeeding years ending December 31 are as follows:

2008	\$	91,298
2009		91,298
2010		<u>45,649</u>
	<u>\$</u>	<u>228,245</u>

## 10. INCOME TAXES

The entities which comprise Proshred Franchise Business are taxable in both Canada and the U.S. The provision for income taxes is made up of the following:

	Nine month period ended December 31 <b>2007</b> (Unaudited)	Year ended March 31 <b>2007</b> (Audited)	Nine month period ended December 31 <b>2006</b> (Unaudited)	Year ended March 31 <b>2006</b> (Unaudited)	Six month period ended March 31 <b>2005</b> (Unaudited)
<u>Current</u>					
U.S. federal	\$ 8,822	\$ 9,350	\$ 3,194	\$ -	\$ -
U.S. state and local	6,261	8,450	4,522	-	-
Canada	-	-	-	-	-
	<u>\$ 15,083</u>	<u>\$ 17,800</u>	<u>\$ 7,716</u>	<u>\$ -</u>	<u>\$ -</u>

Income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to income before income taxes as follows:

	Nine month period ended December 31 <b>2007</b> (Unaudited)	Year ended March 31 <b>2007</b> (Audited)	Nine month period ended December 31 <b>2006</b> (Unaudited)	Year ended March 31 <b>2006</b> (Unaudited)	Six month period ended March 31 <b>2005</b> (Unaudited)
Statutory income tax rate	36.12%	36.12%	36.12%	36.12%	36.12%
Loss before income taxes	\$ (20,737)	\$ (230,775)	\$ (198,687)	\$ (343,142)	\$ (163,868)
Difference in tax rates on non-Canadian income	(43,881)	(9,862)	(10,310)	756	(5,193)
Benefit on current period losses not recognized	<u>79,701</u>	<u>258,437</u>	<u>216,713</u>	<u>342,386</u>	<u>169,061</u>
	<u>\$ 15,083</u>	<u>\$ 17,800</u>	<u>\$ 7,716</u>	<u>\$ -</u>	<u>\$ -</u>

## PROSHRED FRANCHISE BUSINESS

## NOTES TO COMBINED FINANCIAL STATEMENTS

NINE MONTH PERIOD ENDED DECEMBER 31, 2007 (UNAUDITED)

YEAR ENDED MARCH 31, 2007 (AUDITED)

YEAR ENDED MARCH 31, 2006 (UNAUDITED)

SIX MONTH PERIOD ENDED MARCH 31, 2005 (UNAUDITED)

## 10. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the future tax assets are as follows:

	<b>December 31</b>	<b>March 31</b>	<b>March 31</b>	<b>March 31</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
Future tax assets (liabilities)				
Equipment	\$ -	\$ -	\$ (4,230)	\$ 3,897
Customer list	53,265	55,350	42,525	14,121
Trademarks	(852)	(674)	(419)	(144)
Non-capital loss carry forwards	<u>797,174</u>	<u>715,208</u>	<u>473,571</u>	<u>151,187</u>
Total future tax assets	849,587	769,884	511,447	169,061
Valuation allowance	<u>(849,587)</u>	<u>(769,884)</u>	<u>(511,447)</u>	<u>(169,061)</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which Proshred Franchise Business operates and tax planning strategies in making this assessment.

As at December 31, 2007, Proshred Franchise Business has approximately \$2,137,140 of non-capital losses in Canada available that may be used to reduce future year's taxable income. The potential benefits of these losses have not been reflected in the accounts of Proshred Franchise Business. These losses expire as follows:

2015	\$ 237,140
2016	1,561,000
2017	<u>339,000</u>
	<u>\$ 2,137,140</u>

**PRO FORMA BALANCE SHEET AND INCOME STATEMENT OF THE RESULTING ISSUER**

# **RediShred Capital Corp.**

Pro Forma Consolidated Balance Sheet  
(Unaudited)  
**December 31, 2007**

# RediShred Capital Corp.

Pro Forma Consolidated Balance Sheet

(Unaudited)

As at December 31, 2007

	RediShred Capital Corp. \$	Proshred \$	Pro forma adjustments (note 2)		Consolidated Pro forma \$
<b>Assets</b>					
<b>Current assets</b>					
Cash	1,362,252	158,117	(3,700,000)	(a)	
			4,650,000	(b)	2,470,369
Amounts receivable	22,487	124,997	-		147,484
Prepaid expenses and sundry assets	77,219	6,928	-		84,147
Notes receivable from franchisees	-	91,925	-		91,925
	1,461,958	381,967	950,000		2,793,925
<b>Notes receivable from franchisees</b>	-	140,712	-		140,712
<b>Equipment</b>	-	22,098	7,902	(a)	30,000
<b>Software</b>	-	-	750,000	(a)	750,000
<b>Customer list</b>	-	-	100,000	(a)	100,000
<b>Trademarks and intellectual property</b>	-	15,000	2,005,000	(a)	2,020,000
<b>Franchise Agreements</b>	-	-	3,502,572	(a)	3,502,572
	1,461,958	559,777	7,315,474		9,337,209
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	134,137	98,052	-		232,189
Income taxes payable	-	1,993	-		1,993
Deferred franchise fee service	-	125,206	-		125,206
Current portion of promissory note payable	-	20,000	(20,000)	(a)	-
	134,137	245,250	(20,000)		359,387
<b>Promissory note payable</b>	-	15,000	(15,000)	(a)	-
<b>Future tax liability</b>	-	-	1,300,000	(a)	1,300,000
	134,137	260,251	1,260,000		1,659,387
<b>Equity</b>					
<b>Shareholders' equity</b>					
Capital Stock	1,354,446	-	1,700,000	(a)	
			5,000,000	(b)	
			(350,000)	(b)	7,704,446
Contributed surplus	117,000	-	-		117,000
Deficit	(143,625)	-	-		(143,625)
<b>Divisional equity</b>	-	299,526	(299,526)	(a)	-
	1,327,821	299,526	6,050,474		7,677,821
	1,461,958	559,777	7,315,474		9,337,209

# RediShred Capital Corp.

Pro Forma Consolidated Income Statement  
(Unaudited)

For the year ending December 31, 2007

	RediShred Capital Corp.	Proshred	Pro forma adjustments (note 5)	Consolidated Pro forma
<b>Revenue</b>				
Franchise territory fees	-	1,050,302	-	1,050,302
Royalties and service fees	-	372,234	-	372,234
Interest income	18,783	16,974	-	35,757
	<u>\$ 18,783</u>	<u>\$ 1,439,510</u>	<u>\$ -</u>	<u>\$ 1,458,293</u>
<b>Expenses</b>				
Salaries and consulting fees	100,000	793,228	-	893,228
General and administrative and marketing costs	56,398	758,753	-	815,151
Amortization	-	18,695	817,257	835,952
	<u>\$ 156,398</u>	<u>\$ 1,570,676</u>	<u>\$ 817,257</u>	<u>\$ 2,544,331</u>
<b>Loss before income taxes</b>	<u>\$ 137,615</u>	<u>\$ 131,166</u>	<u>\$ 817,257</u>	<u>\$ 1,086,038</u>
Income taxes expense (recovery)	-	25,167	(294,213)	(269,046)
	<u>\$ 137,615</u>	<u>\$ 156,333</u>	<u>\$ 523,044</u>	<u>\$ 816,992</u>
<b>Loss per share – Basic and Diluted</b>				<u>\$ .036</u>
<b>Weighted average number of common shares outstanding</b>				<u>22,884,616</u>

# RediShred Capital Corp.

Pro Forma Consolidated Balance Sheet

(Unaudited)

As at December 31, 2007

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## 1. Basis of presentation

The accompanying unaudited pro forma consolidated balance sheet and income statement has been prepared by management in accordance with generally accepted accounting principles for inclusion in the Filing Statement of RediShred Capital Corp. (the "Company").

The accompanying pro forma consolidated balance sheet has been prepared from information based on the balance sheet of the Company as at December 31, 2007 and the unaudited balance sheet of Proshred Franchise Business as at December 31, 2007, with adjustments for the assumptions outlined below.

The accompanying pro forma consolidated income statement has been prepared from information based on the income statements of the Company as at December 31, 2007, and the unaudited income statements of Proshred Franchise Business for the nine months ended December 31, 2007, the year ended March 31, 2007 and the nine months ended December 31, 2006.

The accompanying pro forma balance sheet of the Company has been prepared to reflect the following major transactions:

- The acquisition of a business that licenses and manages Proshred secure mobile document destruction franchises in the United States of America ("Proshred Franchise Business") for purchase consideration of \$5,400,000, including acquisition costs of approximately \$100,000.
- The issuance of 9,615,385 common shares of the Company at a price of \$0.52 per common share for net proceeds of \$4,650,000 after share issuance costs of approximately \$350,000.

This unaudited pro forma consolidated balance sheet and income statement has been derived from and should be read in conjunction with the following:

- The Company's audited financial statements for the periods from January 1, 2007 to December 31, 2007, and October 18, 2006, date of incorporation, to December 31, 2006;
- Proshred Franchise Business' audited financial statements for the year ended March 31, 2007 and unaudited financial statements for the nine months ended December 31, 2007 and December 31, 2006;
- The description of the transaction in the Filing Statement at [www.sedar.com](http://www.sedar.com); and
- The description of the issuance of common shares of the Company in the Filing Statement at [www.sedar.com](http://www.sedar.com).

The underlying assumptions for the pro forma adjustments provide a reasonable basis for presenting the significant financial effects directly or indirectly attributable to such transactions. However, the pro forma balance sheet and information for the Company are not necessarily indicative of the results that actually would have been achieved if the transactions and events therein had been completed on the dates indicated. Furthermore, the pro forma balance sheet is not necessarily indicative of the financial position that may be obtained by the Company in the future. In the opinion of management, the unaudited pro forma balance sheet includes all adjustments necessary for the fair presentation of the transactions.

## 2. Pro forma balance sheet adjustments

The unaudited pro forma consolidated balance sheet reflects the following events and transactions as if they had all occurred on December 31, 2007:

- (a) Immediately prior to the closing of the transaction, there will be a reorganization under which the vendor will transfer in the intellectual property and other assets related to the Proshred Franchise Business to a subsidiary of Professional Shredding Corporation in exchange for a note payable. The Company will then acquire the Proshred Franchise Business, by way of acquiring all of the issued and outstanding shares of Professional Shredding Corporation and the note payable. The acquisition is being accounted for using the purchase method, with the Company being the acquirer for accounting purposes. The total purchase consideration is \$5,400,000, including acquisition costs of approximately \$100,000, and is comprised as follows:

	\$
Cash	3,700,000
3,269,231 common shares	1,700,000
	<u>5,400,000</u>

The purchase price has been allocated, on a preliminary basis, 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:

	Book value \$	Estimated fair value adjustments \$	Estimated fair value \$
<b>Assets acquired</b>			
Cash	158,117	-	158,177
Accounts receivable	124,997	-	124,997
Prepaid expenses and sundry assets	6,928	-	6,928
Notes receivable from franchisees	232,637	-	232,637
Equipment	22,098	7,902	30,000
Software	-	750,000	750,000
Customer List	-	100,000	100,000
Trademarks and intellectual property	15,000	2,005,000	2,020,000
Franchise Agreements	-	3,502,572	3,502,572
Accounts payable and accrued liabilities	(98,052)	-	(98,052)
Income taxes payable	(1,993)	-	(1,993)
Deferred franchise fee revenue	(125,206)	-	(125,206)
Future tax liability	-	(1,300,000)	(1,300,000)
	<u>334,526</u>	<u>5,065,474</u>	<u>5,400,000</u>

The accounting basis of the net assets acquired exceeded the tax basis by \$3.6 million. As a result, a future tax liability of \$1.3 million was recorded.

The promissory note payable of Proshred Franchise Business, in the amount of \$40,000 will not be assumed under the acquisition agreement.

- (b) For purposes of this pro forma balance sheet, management has assumed the completion of an issuance of 9,615,385 common shares of the Company at \$0.52 per common shares for gross proceeds of \$5,000,000. Net cash proceeds of the offering are assumed to be \$4,650,000, after issuance costs of approximately \$350,000. In addition to these issuance costs, options will be issued to the agents to purchase 576,923 common shares at a price of \$0.52 per common share for a period of 2 years from the date the options are issued. These options are accounted for as share issue costs and contributed surplus.

### 3. Continuity of pro forma share capital

The following is a schedule of the pro forma common share capital of the Company reflecting the transactions referred to in note 2.

	Number	Amount
		\$
RediShred issued and outstanding common shares as at December 31, 2007	10,000,000	1,354,446
Issued to acquire ProShred Franchise Business	3,269,231	1,700,000
Issued for cash, net of issue costs of \$350,000	9,615,385	4,650,000
	<u>22,884,616</u>	<u>7,704,446</u>

### 4. Pro forma effective tax rate

The pro forma effective tax rate applicable to consolidated operations to December 31, 2007 was 36%.

### 5. Pro forma Income statement adjustments

The unaudited pro forma consolidated income statement reflects the preceding and following events and transactions as if they had all occurred at the beginning of the year ending December 31, 2007

The income statement adjustments relate to the amortization of assets purchased from professional shredding corporation and the related income tax recovery on the amortization of the assets:

	Cost	Amortization	Net Book Value
	\$	\$	\$
Equipment	30,000	15,000	15,000
Software	750,000	250,000	500,000
Trademarks and intellectual property	2,020,000	202,000	1,818,000
Franchise Agreements	3,502,572	350,257	3,152,315
	<u>6,302,572</u>	<u>817,257</u>	<u>5,485,315</u>
Tax Recovery		<u>294,213</u>	