

## **REDISHRED CAPITAL CORP. REPORT TO SHAREHOLDERS**

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On behalf of the Board of Directors, I am pleased to present the 2007 Annual Report for Redishred Capital Corp..

Redishred Capital Corp. as of December 31, 2007 was a Capital Pool Company listed on the TSX Venture Exchange, with the purpose to complete a "Qualifying Transaction" in the document destruction industry. Redishred Capital Corp.'s initial public offering occurred on September 4, 2007. Redishred Capital Corp. as of December 31, 2007 had not commenced operations.

Redishred Capital Corp. announced on October 4, 2007 that it had entered into an Acquisition Agreement with The Heron Group to purchase Professional Shredding Corporation and its key brand, **PROSHRED**<sup>®</sup>. The acquisition of Professional Shredding Corporation and **PROSHRED**<sup>®</sup> was finalized on March 17, 2008. The purchase price for **PROSHRED**<sup>®</sup> was \$5.3 million.

### **ABOUT PROFESSIONAL SHREDDING CORPORATION AND **PROSHRED**<sup>®</sup>**

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Professional Shredding Corporation 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**<sup>®</sup>. 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**<sup>®</sup> system 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. **PROSHRED**<sup>®</sup> also offers services to residential and home office customers.

**PROSHRED**<sup>®</sup> was the pioneer in the onsite document destruction industry, commencing operations in Toronto in the mid 1980s. The rights to **PROSHRED**<sup>®</sup> outside of Canada were acquired by Heron Capital Corporation (a subsidiary of The Heron Group) on September 29, 2004. At that date, the **PROSHRED**<sup>®</sup> system had six franchisees. Throughout the calendar year 2005, Heron Capital Corporation invested in redeveloping the **PROSHRED**<sup>®</sup> operating platform. This included the creation of new operating manuals/ISO manuals, a significant upgrade to **PROSHRED**<sup>®</sup>'s Business' proprietary software system Shredlogic, the implementation of a new customer relationship package called Netsuite<sup>®</sup>, and the creation of new sales and marketing materials, including a new web site. In addition, **PROSHRED**<sup>®</sup> recruited a new management team to ensure adequate support was provided to existing Franchisees and to support future growth and development of the **PROSHRED**<sup>®</sup> system.

In January of 2006, **PROSHRED**® added its first new franchise under the new operating platform, located in Charlotte, North Carolina. Throughout 2006, four new franchises were awarded, with two commencing operations. In 2007, six new franchises were awarded and five commenced operations. As of March 2008, **PROSHRED**® has 17 franchisees.

**PROSHRED**® continues to be the only national onsite document destruction company in the United States to be ISO 9001 certified for international standards in quality and customer satisfaction.

## **REDISHRED CAPITAL CORP. AND PROSHRED® MOVING FORWARD**

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### ***Vision Statement***

**PROSHRED**®'s vision is to be recognized as the system of choice for the secure destruction and recycling of confidential documents and proprietary materials worldwide.

### ***Quality Statements***

- **PROSHRED**® is a professional shredding company with a focus and commitment to security and the environment.
- Quality is a basic business principle of **PROSHRED**®.
- We are committed to quality service and to the processes, measurements and continuous improvement that are the foundation of quality management.
- Quality means providing our customers with secure service that meets or exceeds their expectations.
- The delivery of quality service and commitment to continuous improvement is the job of every **PROSHRED**® employee.

### ***Core Values***

- Integrity
- Honesty
- A strong work ethic & initiative
- Professionalism
- Lifelong learning
- Protection of the environment
- Healthy, family, fun
- T.E.A.M. Work ("Together Everyone Achieves More")

## **Strategy**

**PROSHRED**® will focus its growth in the document destruction business through the acquisition and establishment of wholly owned document destruction businesses that generate stable and recurring cash flows in primary markets across the United States. **PROSHRED**® will continue to sell franchises consistent with the past, but aimed at secondary markets.

In addition, **PROSHRED**® plans to implement internal growth strategies, such as expanding services to home-based businesses (residential services) and continuing to develop complementary services around proprietary product and electronic materials destruction.

In closing, the management team and employees of Redishred Capital Corp. and Professional Shredding Corporation would like to thank the board of directors and the shareholders for their support. **PROSHRED**® is a vibrant brand, with a proven operating system that is well positioned to grow in 2008 and beyond.



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John Prittie  
President and CEO

## **REDISHRED CAPITAL CORP.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD ENDED DECEMBER 31, 2007**

#### **Background**

This discussion and analysis of financial position and results of operation is prepared as at February 28, 2008 and should be read in conjunction with the audited financial statements for the period ended December 31, 2007 for Redishred Capital Corp. (the "Company"). Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Company Overview**

The Company was incorporated under the *Business Canada Business Corporations Act* (the "CBCA") on October 18, 2006. The head office and the registered office of the Corporation are located at Suite 900, Purdy's Wharf Tower One, 1959 Upper Water Street, Halifax, Nova Scotia. On August 21, 2007, the Company received final receipts for a prospectus and became a reporting issuer in the Provinces of Alberta, British Columbia, New Brunswick, Nova Scotia and Ontario (collectively, the "Jurisdictions"). The Company completed its initial public offering (the "Offering") to raise gross proceeds of \$900,000 on August 29, 2007 and had its common shares listed for trading on the TSX Venture Exchange ("TSXV") as a capital pool company on September 5, 2007, under the symbol KUT.P.

The Company has not commenced operations and has no assets other than cash, sundry accounts receivable and prepaid expenses. The proceeds from the Offering are expected to provide the Company with a minimum of funds with which to identify and evaluate businesses or assets with a view to complete a "Qualifying Transaction", subject to regulatory and shareholder approvals.

On October 3, 2007, the Issuer announced that it had identified a transaction that management believes will satisfy the applicable requirements of the Exchange to constitute the Issuer's Qualifying Transaction.

#### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include the intention to complete the acquisition and the Qualifying Transaction. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this document. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to: the ability of the Company to obtain necessary financing; satisfy conditions under any acquisition agreement; satisfy the requirements of the TSX Venture Exchange with respect to the acquisition and the Qualifying Transaction; consumer interest in the Company's services and products; competition; and anticipated and unanticipated costs. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify important factors that could cause actual actions, events or results

to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Corporation. Additional factors are noted under "Risk Factors" in the Company's initial public offering prospectus dated August 21, 2007, a copy of which may be obtained on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Completion of the Qualifying Transaction is subject to a number of conditions, including but not limited to, completion of a definitive agreement, TSX Venture Exchange acceptance, and financing. There can be no assurance that the transaction will be completed as proposed or at all.

### Selected Financial Data

	For the year ended December 31, 2007	For the year ended December 31, 2006
	(audited)	(audited)
<b>Operations</b>		
Revenues	\$ -	\$ -
Expenses (net of interest revenue)	\$ 156,398	\$ 6,010
Net loss	\$ 137,615	\$ 6,010
	December 31, 2007	December 31, 2006
	(audited)	(audited)
<b>Balance Sheet</b>		
Working Capital	\$ 1,327,821	(\$ 6,009)
Total Assets	\$ 1,461,958	\$ 1
Total Liabilities	\$ 134,137	\$ 6,010

### Results of Operations

The Company was incorporated on October 18, 2006. The Company does not have any operations and will not conduct any business other than the identification and evaluation of business and assets for potential acquisition.

During the year ended December 31, 2007, the Company recorded a net loss of \$137,615 comprised of \$nil revenue and expenses in an amount of \$156,398, which was primarily due to the costs of the initial public offering. Administrative expenses consisted of \$13,314 for filing, transfer and regulatory fees, \$29,535 for professional fees, \$13,549 for administration costs and \$100,000 for stock based compensation. The Company received share subscriptions of \$900,000 for its initial public offering of 4,500,000 shares on August 29, 2007. In addition, the Company received share subscriptions of \$500,000 for its private seed offering of 4,999,999 shares on June 15, 2007 and \$100,000 for its private seed offering of 500,000 shares on August 10, 2007.

## Financial Condition / Capital Resources

Since inception, the Company's capital resources have been limited to amounts raised from the sale of common shares in the Company. From inception to December 31, 2007, the Company raised gross proceeds of \$1,500,000 from the sale of its common shares. As at December 31, 2007, the Company had working capital of \$1,324,144.

The Company has not commenced operations and has no assets other than cash and sundry receivables. The proceeds from the Offering are expected to provide the Company with a minimum of funds with which to identify and evaluate businesses or assets with a view to complete a Qualifying Transaction. However, if the Company identifies a target business, asset or property as its Qualifying Transaction; it is probable that the Company will have to seek additional financing.

There is no assurance that the Company will be able to identify a suitable Qualifying Transaction. Furthermore, even if a Qualifying Transaction is identified, there can be no assurance that the Company will be able to complete the transaction.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Fourth Quarter

For the three months ended December  
31, 2006  
  
(audited)

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### Operations

Revenues	\$	-
Expenses (net of interest revenue)	\$	47,799
Net loss	\$	41,644

During the three months ended December 31, 2007, the Company recorded a net loss of \$37,967 comprised of \$nil revenue and expenses in an amount of \$51,476, which was primarily due to the costs of the initial public offering. Administrative expenses consisted of \$13,314 for filing, transfer and regulatory fees, \$23,155 for professional fees, \$11,330 for administration costs. The company's financial position versus September 30, 2007 was as follows:

	December 31, 2007	September 30, 2007
	(audited)	(unaudited)
<b>Balance Sheet</b>		
Working Capital	\$ 1,327,821	\$ 1,354,314
Total Assets	\$ 1,461,958	\$ 1,432,324
Total Liabilities	\$ 134,137	\$ 77,920

## Proposed Transactions

RediShred has entered into the Acquisition Agreement to acquire the (“Professional Shredding Corporation”) PSC Shares and the Note. Pursuant to the Acquisition Agreement, the Purchase Price payable by RediShred to the Vendor will be satisfied by a combination of cash and Shares issued from the treasury of RediShred, summing to a total of \$5.3 Million. The cash component of the Purchase Price will range from \$2.6 million to \$3.6 million. If \$3.6 million is raised under the Private Placement, the cash component of the Purchase Price will be \$2.6 million. For every dollar over \$3.6 million raised under the Private Placement, the cash component of the Purchase Price will increase by one dollar provided that the cash component of the Purchase Price shall not increase by more than \$1 million. This will result in between 3,269,231 and 5,192,308 Shares, at a price of \$0.52, being issued to the Vendor. All Shares issued to the Vendor pursuant to the Acquisition Agreement will be held in escrow pursuant to the terms of the Escrow Agreement. See “Information Concerning the Resulting Issuer – Escrowed Securities”.

Together with the Private Placement, the Acquisition is intended to constitute RediShred’s Qualifying Transaction. The closing of the Acquisition is subject only to title review, Exchange approval, financing and other customary closing conditions and is expected to occur on the date that is seven business days after Exchange approval of RediShred’s Qualifying Transaction.

RediShred will also offer to employ the HCC Employees as part of the Acquisition in the following capacities:

Name	Position with Resulting Issuer
John Prittie (1)	Chief Executive Officer
Jeffrey Hasham	Chief Financial Officer
Timothy Tibbs	Chief Operating Officer
James Reid	Director, Development
Andrew Parry	Director, Marketing and Training
Joseph May	Franchise Business Consultant
Nancy Prittie (2)	Accounting Coordinator

*(1) John Prittie is a technical consultant of RediShred and owns 7.5% of the outstanding Shares prior to the Qualifying Transaction*

*(2) Spouse of John Prittie.*

In order to finance the Acquisition, RediShred intends to complete the Private Placement. A portion of the proceeds of the Private Placement not used to fund the Acquisition will be used to pay for the costs and expenses associated with the Private Placement and the Qualifying Transaction. The balance of the proceeds, if any, will be used to identify potential future acquisitions and for general corporate purposes. In the event that RediShred’s proposed Qualifying Transaction is not completed for any reason, RediShred may require additional financing in order to continue identifying and evaluating businesses and assets for the purpose of completing an alternative Qualifying Transaction.

## Significant Accounting Policies

A detailed summary of all the Company’s significant accounting policies is included in Note 2 to the December 31, 2007 audited financial statements.

## Changes in Accounting Policies

There are no changes in accounting principles adopted by the Company.

## Transactions with Related Parties

During the year ended December 31, 2007 there are no transactions with related parties.

## **Risks and Uncertainties**

The Company's financial performance is likely to be subject to the following risks:

1. The Company has not commenced commercial operations, and has no assets other than cash and sundry receivables, has no history of earnings and shall not generate earnings to pay dividends until at least after the completion of the Qualifying Transaction;
2. Until completion of the Qualifying Transaction, the Company is not permitted to carry on any business other than the identification and evaluation of potential Qualifying Transactions; and
3. The Company has only limited funds with which to identify and evaluate potential Qualifying Transactions and there can be no assurance that the Company will be able to identify or complete a suitable Qualifying Transaction.

## **Investor Relations Activities**

The Company does not have any investor relations arrangements.

## **Share Data**

The Company's authorized share capital is unlimited common shares without par value. As at September 30, 2007 and as at the date hereof, there were 10,000,000 issued and outstanding common shares. In addition, the agent holds 270,000 stock options exercisable at a price of \$0.20 each. On August 29, 2007 the Company granted 975,000 stock options to officers and directors exercisable at a price of \$0.20 each.

February 28, 2008

### **Management's responsibility for Financial Reporting**

The accompanying financial statements of RediShred Capital Corp. have been prepared by RediShred's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada 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 RediShred 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. It meets with RediShred'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 RediShred's auditors by the shareholders, has examined these financial statements and their report follows.

(signed) "Mark J. MacMillan"

Mark J. MacMillan  
Chief Executive Officer  
Halifax, Nova Scotia

(signed) "Phillip H. Gaunce"

Phillip H. Gaunce  
Chief Financial Officer

February 28, 2008

**Auditors' Report**

**To the Directors of  
RediShred Capital Corp.**

We have audited the balance sheets of **RediShred Capital Corp.** as at December 31, 2007 and 2006 and the statements of loss, comprehensive loss and deficit and cash flows for the year ended December 31, 2007, and the 75-day period from October 18, 2006, date of incorporation, to December 31, 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the 75-day period from October 18, 2006, date of incorporation, to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

**Chartered Accountants**  
Halifax, Nova Scotia

# RediShred Capital Corp.

## Balance Sheets

As at December 31, 2007 and 2006

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	2007	2006
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash (note 4)	1,362,252	1
Accounts receivable	22,487	-
Prepaid expenses and deferred charges	77,219	-
	<u>1,461,958</u>	<u>1</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u>134,137</u>	<u>6,010</u>
<b>Shareholders' Equity (Deficiency)</b>		
Capital stock (note 5)	1,354,446	1
Contributed surplus (note 6)	117,000	-
Deficit	<u>(143,625)</u>	<u>(6,010)</u>
	<u>1,327,821</u>	<u>(6,009)</u>
	<u>1,461,958</u>	<u>1</u>
<b>Subsequent events (note 9)</b>		

Approved on behalf of the Board of Directors

(signed) "Phillip H. Gaunce"  
Phillip H. Gaunce  
Director

(signed) "Mark J. MacMillan"  
Mark J. MacMillan  
Director

# RediShred Capital Corp.

Statements of Loss, Comprehensive Loss and Deficit  
For the periods ended December 31, 2007 and 2006

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	Year ended December 31, 2007 \$	75-day period ended December 31, 2006 \$
<b>Expenses</b>		
Legal and accounting	29,535	3,747
Office	4,202	391
Regulatory fees	13,314	-
Stock-based compensation	100,000	-
Travel	9,347	1,872
	<u>(156,398)</u>	<u>(6,010)</u>
<b>Interest income</b>	<u>18,783</u>	<u>-</u>
<b>Net loss and comprehensive loss for the periods</b>	(137,615)	(6,010)
<b>Deficit – Beginning of periods</b>	<u>(6,010)</u>	<u>-</u>
<b>Deficit – End of periods</b>	<u>(143,625)</u>	<u>(6,010)</u>
<b>Loss per share – Basic and diluted</b>	<u>(0.03)</u>	<u>(6,010)</u>
<b>Weighted average number of common shares outstanding</b>	<u>4,478,083</u>	<u>1</u>

# RediShred Capital Corp.

## Statements of Cash Flows

For the periods ended December 31, 2007 and 2006

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	Year ended December 31, 2007 \$	75-day period ended December 31, 2006 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the periods	(137,615)	(6,010)
Stock-base compensation, not affecting cash	<u>100,000</u>	<u>-</u>
	(37,615)	(6,010)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(22,487)	-
Decrease (increase) in prepaid expenses and deferred charges	(77,219)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>128,127</u>	<u>6,010</u>
	(9,194)	-
<b>Financing activities</b>		
Net cash proceeds from issuance of common shares	<u>1,371,445</u>	<u>1</u>
<b>Net change in cash for the periods</b>	1,362,251	1
<b>Cash – Beginning of periods</b>	<u>1</u>	<u>-</u>
<b>Cash – End of periods</b>	<u>1,362,252</u>	<u>1</u>

# RediShred Capital Corp.

## Notes to Financial Statements

For the periods ended December 31, 2007 and 2006

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### 1 Incorporation and nature of business

RediShred Capital Corp. (the “Corporation”) was incorporated under the Canada Business Corporations Act on October 18, 2006 and is classified as a Capital Pool Corporation, as defined in policy 2.4 of the TSX Venture Exchange (the “Exchange”). The Corporation’s common shares were listed for trading on the Exchange on September 5, 2007 as a Capital Pool Corporation. The Corporation’s business has been the identification and evaluation of shredding businesses that could qualify as a Qualifying Transaction under Exchange policies. The Corporation’s continuing operations, as intended, are dependent on its ability to secure equity financing with which it intends to identify and evaluate potential acquisitions of businesses and, once identified and evaluated, to negotiate an acquisition thereof or participation therein, subject to receipt of regulatory and, if required, shareholders’ approval.

Where an acquisition or participation is warranted (the Qualifying Transaction), additional funding may be required. The ability of the Corporation to fund its potential future operations and commitments is dependent on the ability of the Corporation to obtain additional financing.

There is no assurance that the Corporation will identify a business or asset that warrants acquisition or participation within the time limitations permissible under the policies of the Exchange; at which time, the Exchange may suspend or delist the Corporation’s shares from trading.

### 2 Changes in accounting policies

Effective January 1, 2007, the Corporation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants: (i) Section 1506 Accounting Changes; (ii) Section 1530 Comprehensive Income; (iii) Section 3251 Equity; (iv) Section 3855 Financial Instruments – Recognition and Measurement; and (v) Section 3861 Financial Instruments – Disclosure and Presentation. With the exception of Section 3855 as described below, these standards were adopted on a prospective basis without restatement of prior periods.

Section 1506 allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors in the financial statements. The adoption of this standard did not have an impact on the Corporation other than the additional disclosure regarding the impact of new accounting standards that have been issued but are not yet effective for the Corporation.

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530. The adoption of this standard did not impact the Corporation.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income is the change in equity of the Corporation during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. The adoption of this standard did not impact the Corporation, therefore, net loss for the year is equivalent to comprehensive loss for the year.

Section 3855 and 3861 provide guidance on the recognition, measurement, presentation and disclosure of

# RediShred Capital Corp.

## Notes to Financial Statements

**For the periods ended December 31, 2007 and 2006**

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financial instruments. In accordance with the transitional provisions, Section 3855 was adopted at the beginning of the year on a retroactive basis with no restatement of prior periods. This new standard requires that all financial assets and liabilities be classified as either: held-to-maturity, held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. The initial and subsequent recognition of the financial instrument depends on its initial classification.

The Corporation has implemented the following classifications on adoption of Section 3855:

- Cash is classified as held-for-trading. Changes in fair value for the period are recorded in net earnings.
- Accounts receivable 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.

The adoption of these standards did not have a material impact on the Corporation.

### **3 Significant accounting policies**

#### **Income Taxes**

The Corporation 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 and laws that are in effect at the year-end. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

#### **Corporate transaction costs**

The Corporation recognizes corporate transaction costs as an asset when a proposed transaction is specifically identified in that the form of debt or share capital, or the specific identities of the businesses to be combined, is known, completion of the transaction is considered to be more likely than not. Only those costs that are direct and incremental costs incurred in connection with the proposed transaction are recognized as an asset. If these criteria are not met, the corporate transaction costs are expensed. All overheads such as officer or employee remuneration and the costs of activities such as acquisition planning and strategic corporate development are period costs and are expensed as incurred.

#### **Stock-based compensation**

The Corporation 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 Corporation’s stock options.

# RediShred Capital Corp.

## Notes to Financial Statements

For the periods ended December 31, 2007 and 2006

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### Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. The Corporation follows the treasury stock method of calculating diluted loss per share. Diluted loss per share is equal to loss per share since the exercise of options and warrants is anti-dilutive.

### Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from these estimates.

### Financial Instruments

The fair value of the Corporation's accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term nature of these items.

### Future accounting policies

The Canadian Institute of Chartered Accountants has issued accounting standards that become effective for the Corporation on January 1, 2008: Section 1535, Capital Disclosures; section 3862; Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. The Corporation is in the process of evaluating the impact of this new standard.

Section 3862 and 3863 will replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Corporation is in the process of evaluating the impact of these new standards.

## 4 Cash

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that up to the lesser of 30% of the gross proceeds from the sale of all securities issued by the corporation and \$210,000 may be used for purposes other than evaluating businesses or assets to cover prescribed costs of issuing the common shares or administrative and general expenses of the corporation. This restriction applies until completion of a qualifying transaction by the corporation, as defined in the policies of the Exchange.

## 5 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 Financial Statements

For the periods ended December 31, 2007 and 2006

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**(b) Issued**

Changes in the Corporation's issued common share capital during the periods were as follows:

	Year ended December 31, 2007		75-day period ended December 31, 2006	
	Number	Amount \$	Number	Amount \$
Opening balance	1	1	-	-
Shares issued for cash	9,999,999	1,499,999	1	1
Less: Share issue costs	-	(145,554)	-	-
Closing balance	10,000,000	1,354,446	1	1

**(c) Details of share issuances**

On June 15, 2007, the Corporation 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 Corporation, Computershare Investor Services Inc. as escrow agent and certain of the Corporation's shareholders. Under the Escrow Agreement, 10% of the escrowed common shares will be released from escrow (the "Initial Release") on 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% will be released on the dates six months, twelve months, 18 months, 24 months, 30 months and 36 months following the Initial Release. If the Corporation 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 Corporation 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 Corporation issued 500,000 common shares for cash of \$100,000. Of these 500,000 common shares, 315,000 common shares are held in escrow and will be released in future periods in accordance with the Escrow Agreement.

On August 21, 2007, the Corporation filed a prospectus related to the initial public offering of its common shares, and on August 29, 2007, the Corporation issued 4,500,000 common shares for net cash proceeds of \$777,276. Of these 4,500,000 common shares, 680,000 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 Corporation issued 270,000 options with a fair value of \$17,000. The fair value of these options are reflected as share issue costs.

**(d) Stock Options**

The Corporation has adopted a stock option plan (the "Plan"), providing the Board with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Corporation. Stock options are granted in accordance with TSX Venture Exchange policy.

# RediShred Capital Corp.

## Notes to Financial Statements

For the periods ended December 31, 2007 and 2006

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On August 29, 2007, the Corporation issued options to acquire 975,000 common shares of the Corporation at a price of \$0.20 per share expiring August 29, 2012. The Corporation also issued options, on September 5, 2007, to acquire 270,000 common shares of the Corporation at a price of \$0.20 per share, expiring September 5, 2009. All options were fully vested upon granting. The weighted average remaining contractual term of the options outstanding and exercisable at December 31, 2007 is 4.0 years.

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:

Expected option life	4.3 years
Risk-free interest rate	4.3%
Expected dividend yield	nil
Expected volatility	50%

The weighted average grant-date fair value of options granted during the period was \$0.09 per option.

### 6 Contributed Surplus

	\$
Balance December 31, 2006	-
Value of options issued to employees and earned during the period	100,000
Value of options issued in connection with shares issued, recorded as share issue costs	<u>17,000</u>
Balance December 31, 2007	<u>117,000</u>

### 7 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 loss for the periods ended December 31, 2007 and 2006:

	Year ended December 31, 2007 \$	75-day period ended December 31, 2006 \$
Loss before income taxes	(137,615)	(6,010)
Income tax rate	<u>37.5%</u>	<u>38.1%</u>
Expected income tax recovery based on above rates	(52,000)	(2,000)
Non-deductible stock option expense	38,000	-
Increase in valuation allowance	60,000	2,000
Other and permanent differences	<u>(46,000)</u>	<u>-</u>
Provision for income taxes	<u>-</u>	<u>-</u>

# RediShred Capital Corp.

## Notes to Financial Statements

For the periods ended December 31, 2007 and 2006

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

Future income taxes	(60,000)	(2,000)
Increase in valuation allowance	60,000	2,000
	<u>-</u>	<u>-</u>

The following reflects the components of future income tax assets at December 31, 2007 and 2006:

	2007	2006
	\$	\$
<b>Future tax assets</b>		
Non-capital losses carried forward	25,000	2,000
Deductible share issue costs	37,000	-
	<u>62,000</u>	<u>2,000</u>
Valuation allowance	(62,000)	(2,000)
<b>Net future income tax asset recognized</b>	<u>-</u>	<u>-</u>

The Corporation has accumulated losses for Canadian income tax purposes of approximately \$69,000, 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
	<u>69,000</u>

The Corporation has undeducted share issuance costs from prior years of approximately \$103,000 which will be deducted from Canadian taxable income over the next four years.

### 8 Commitment

On November 28, 2007, the Corporation entered into an Acquisition Agreement to acquire all of the issued and outstanding shares of Professional Shredding Corporation and a promissory note payable by a subsidiary of Professional Shredding Corporation for a purchase price of \$5.3 million. The Corporation expects to settle the purchase price with cash of \$3.6 million and 3,269,231 common shares of the Corporation.

### 9 Subsequent events

In connection with a private placement, the Corporation expects to issue a minimum of 9,615,385 common shares for net cash proceeds of approximately \$4,650,000 prior to closing the transaction referred to in note 8 above.